

# Roadmap for a green financial system

Enabling actions:

*AIFC Green Bond Framework*

Task B.5 of project “Green Financial System for Kazakhstan”

Final Report

25.8.2017

# Content

<b>1. Green Bonds as reference financial instrument for AIFC</b>	<b>2</b>
1.1 Strategic purpose and goals	2
1.2 AIFC responsibilities and roles	4
<b>2. Roadmap for a Green Bond Framework</b>	<b>5</b>
2.1 Key outputs of the AIX Green Bond Framework	5
2.2 Step 1: Endorsement	6
2.3 Step 2: Guidelines	8
2.4 Step 3: Oversight	15
2.5 Step 4: Mobilization	17
2.6 Summary of recommendation in the Roadmap	20
2.7 Preliminary timeline	21
<b>3. Outline of market discovery by AIFC</b>	<b>22</b>

# 1. Green Bonds as reference financial instrument for AIFC

## 1.1 Strategic purpose and goals

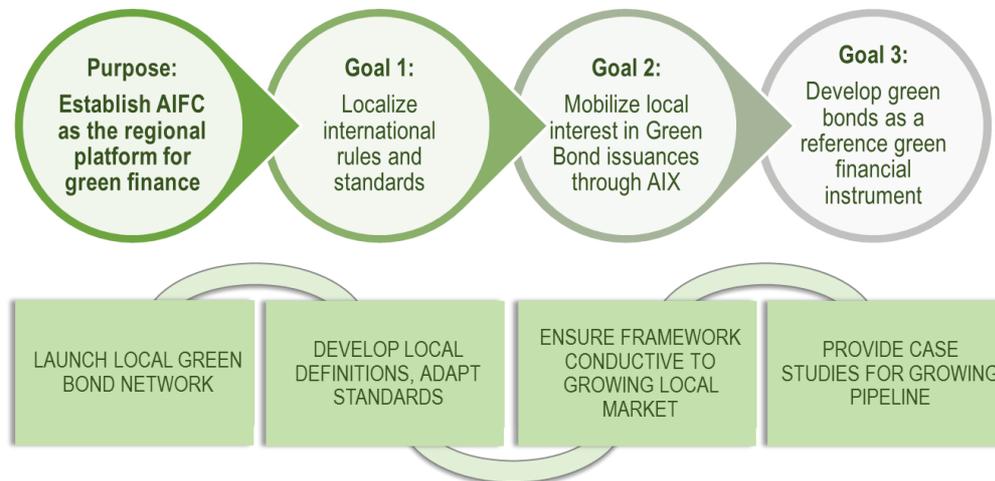
During the course of the project green bonds have been identified as a reference green financial instrument for AIFC. Green bonds have been reviewed in earlier project tasks, including A.3 (review of international experiences) and A.6.3 (green standards), as well as presented in two separate workshops organised by the AIFC.

Examples from several other countries examined during the project highlight the benefit of a reference instrument in developing Green Financial Systems (GFS). The type of reference instruments varied substantially between locations and included instruments focusing on risk sharing (sub-ordination, guarantees, loss reserves), aggregation (warehousing, securitization), technical assistance and green financial products such as green loans and green bonds. The benefits to an emerging GFS from an early adopted reference instrument are manifold, as shown in Table 1 below:

Key benefits
A reference product requires green definitions and pushes the regulator and market to first define what is "green"
It creates incentives for stakeholders to identify environmental attributes in assets and investments and increases the need to define a methodology for estimating environmental impacts
A network of key stakeholders is activated across the value chain of green investments
It drives integration between green financial products and existing financial regulation and products
Importantly, it provides a proof of concept to investors.

**Table 1.** Benefits to a Green Financial System from a reference green financial instrument

The AIFC's focus on green bonds in part also mirrors a broader emphasis on green bonds in many emerging GFS in e.g. China, India, Morocco, Nigeria, Brazil, Singapore and Mexico. However, an emphasis on green bonds lends strong support for the overall purpose of AIFC's green finance strategy as illustrated by figure 1 below. A green bond strategy empowers AIFC to localize green definitions and standards, mobilize local actors in the financial value chain to induce networking effects in the financial ecosystem and provide reference cases to illustrate market diversity (green bond product types and range of potential issuers).



**Figure 1.** Green Bonds as a reference financial instrument for AIFC

The Roadmap for an AIFC Green Bond Framework outlined in this paper is aligned with the broader AIFC Green Finance Roadmap through the provided recommendations as well as through the proposed implementation of the green bond strategy through the AIX.

The green bond framework is made up by different inputs in support of AIFC' work to develop the local green bond market.

1. Guidance to create a **green bond framework document**, presented in Chapter 2. Including a list of recommendations on creating the local rules and guidance for a green bond market; governance, eligibility criteria, definition of eligible standards and steps for creating awareness.
2. A **process for market discovery**, presented in Chapter 3, to ensure local market receptiveness to the green bond framework and finding a right balance between regulation and guidance in a nascent market.

An overview of this development process is provided in Figure 2 below. This Roadmap will produce a set of recommendations as guidance for creating the green bond framework document. *Ultimately, the guidance on a green bond framework document presented in Chapter 2 is intended to be developed by AIFC into a freestanding localized guide- and rulebook for green bond issuances on the AIX.* The process for market discovery is a recommendation to circulate the green bond framework document by AIFC among potential market participants in Kazakhstan.

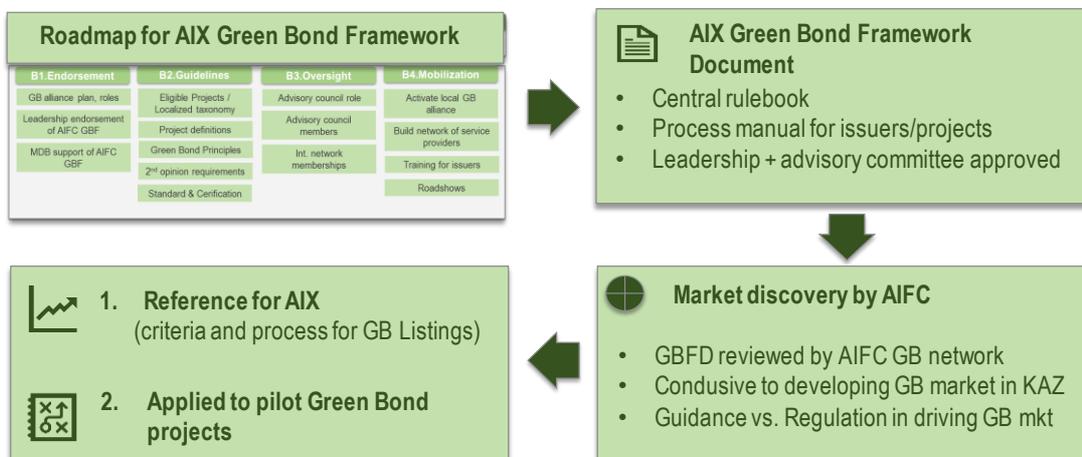


Figure 2. Overview of the AIFC Green Bond Roadmap

## 1.2 AIFC responsibilities and roles

The AIFC operates through its own governance system, own court and regulatory system, based on English Law. The AIFC Management Council and the AIFC Authority govern the different institutions of the AIFC, provide strategic direction and the budget for the AIFC and the Council makes the resolutions that govern the different institutions that operate under the AIFC.

The AIFC’s governance framework enables green bond regulation to be introduced on several levels of the AIFC organisation. However, as the Green Bond Framework is proposed to be implemented initially as a voluntary process for bond listings it would thus ultimately be overseen by the the AIX with a direct product oversight over equities and bonds. Initially the guidance and rules on green bonds established by the Green Bond Framework would be established as a stand-alone green standard without integration into financial regulation established by the Astana Financial Services Authority, the regulator. Over time, the guidance should be formalized by the AIX as a product specific green standard with their governance mandate as the operator of the exchange and provider of capital market services.

The recommended governance and management structure in the following sections focuses solely on the governance and management of the “green”-part of the bond issuance and listing process. In other words, managing the process of determining the green credentials of bond issuances that seek a green listing as a separate “add-on” process to the normal bond listing. Therefore, formal legal and financial governance of the bond is left outside of the scope of the Green Bond Framework. The governance and management of the Green Bond Framework would be operationalized through two bodies; the AIFC Green Bond Advisory Committee (see Section 2.3 below) and an AIX / AIFC Green Bond Team. The Advisory Committee’s role would be focused on governance and on oversight of the green bond eligibility criteria. An AIX/AIFC Green Bond Team, would be the day-to-day manager of the green bond program, with the responsibility to manage the tasks assigned to it by the AIFC leadership or the Advisory Committee in order to ensure the roll-out and functionality of the Green Bond Framework. The team would also be in charge of all market outreach, capacity building through the AIFC Bureau for Continuing Professional Development and network activation.

The Green Bond Framework also includes the creation of a “Green Bond Alliance”, a business network organisation focused on building the green bond market in Kazakhstan. This Alliance

would be convened and governed by the AIFC / AIX and it would act as the main conduit for market dialogue, technical feedback and market activation.

For the purposes of this paper the outlined framework will be called “AIX Green Bond Framework”.

## 2. Roadmap for a Green Bond Framework

### 2.1 Key outputs of the AIX Green Bond Framework

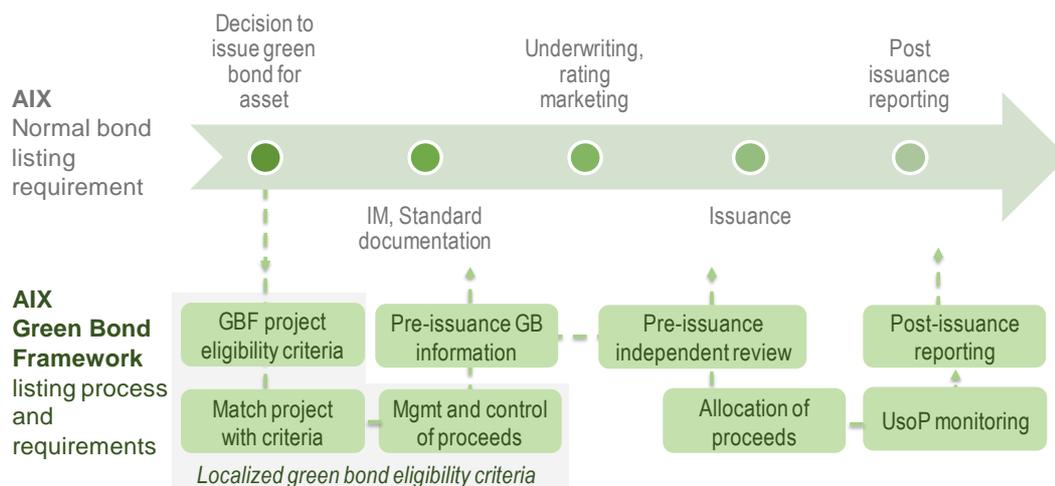
The following chapters 2.2 – 2.5 outline the different outputs that should be included in the AIX Green Bond Framework. The AIX Green Bond Framework is divided into four key operational areas for managing AIFC’s role in creating, endorsing and overseeing the green bond market in Kazakhstan. The operational areas cover endorsement, guidelines, oversight and mobilization, with separate outputs for each area. The focus of “guidelines” is on building the process of creating a green bond, whereas the other three areas focus on green bond market building and oversight. Each one of the four operational areas is presented through a list of key actions that are needed by AIFC to implement the GBF. The provided guidance thus also functions as a roadmap with a list of recommended actions for creating the AIX Green Bond Framework.



**Figure 3.** Key outputs of the AIX Green Bond Framework

The sections on endorsement (2.2), oversight (2.4) and mobilization (2.5) largely describe the operational aspects of the AIX Green Bond Framework; set-up, management and building a network around green bonds in Kazakhstan. Section 2.3, guidelines, focuses on creating the eligibility criteria for green bond listings in AIX and will ultimately form the core of the AIX Green Bond Framework.

Under the project “Green Financial System for Kazakhstan” the Green Bond Framework is outlined as freestanding guidance to support the goal of developing green bonds as a reference green instrument in the AIFC. This approach is also reflected in the guidance provided in the sections below. Figure 4 below illustrates the proposed parallel and independent process created by the AIX Green Bond Framework for bond listings (details further discussed in sections below). Under this structure the listing process and requirements, detailed under section 2.3, related to Green Bonds (darker green boxes) would be adopted as voluntary process for select bond listings, independent of normal bond listing requirements.



**Figure 4.** The AIX Green Bond Framework aligned with a generalized bond listing process

Figure 4 above also illustrates the different steps in using the AIX Green Bond Framework where:

1. A potential green bond issuer reviews its project against the AIX GBF eligibility criteria;
2. The issuer documents how his project or assets match the requirements of the localized eligibility criteria including project-specific technical criteria;
3. It submits a GB report with information on green credentials together with standard financial pre-issuance materials and disclosures as required by the exchange;
4. It seeks independent review (2<sup>nd</sup> opinion or certification, see below) on compliance with the AIX GBF eligibility criteria prior to bond issuance;
5. Pre-issuance independent review completed and reported ahead of issuance and,
6. It complies with monitoring and reporting obligations on Use of Proceeds (i.e. utilizing proceeds as promised) and, provides post-issuance report on compliance with the AIX GBF.

## 2.2 Step 1: Endorsement

### Overall purpose

The first step in establishing the AIX Green Bond Framework (GBF) is to cement endorsement from key stakeholders to launch the GBF. This will provide a solid foundation for development and ensure that a broader network of stakeholders can be created with the help of the key supporters of the GBF. Endorsment should strengthen leadership commitment towards green bonds and amplify political signals in support of a Green Financial System in general, and, specifically for green financial instruments such as green bonds. Early activation and integration

of an alliance of key institutions will further support AIFC in the oversight and mobilization steps in the Green Bond Framework.

### Recommended key actions for AIFC

Endorsement: Action 1	Purpose / Scope
Cement internal <b>leadership endorsement</b> of AIX Green Bond Framework and for establishing an internal green bond organisation	<ul style="list-style-type: none"> <li>Build trust and communicate leadership support for the AIX GBF and GB goals publicly.</li> <li>Leadership endorsement will signal long-term support for building the internal team and know-how for supporting the local GB market</li> </ul>
Tasks	
<ol style="list-style-type: none"> <li>Prepare public leadership statement on supporting the AIX GBF, committing to established goals (such as pilot studies) and the long-term role of AIFC and AIX.</li> <li>AIFC leadership to define and commit funding to internal GB team, its timeline, role and tasks.</li> </ol>	

Endorsement: Action 2	Purpose / Scope
Invite a handful of key domestic financial institutions to define a mandate for and set up the Kazakhstan <b>"Green Bond Alliance"</b>	<ul style="list-style-type: none"> <li>The "Green Bond Alliance" should be set up to become the national business network on GBs with a clear mandate to e.g. disseminate information on GBs, build consensus, ensure buy-in from issuers and financial institutions and co-ordinate GB market development.</li> <li>AIFC should lead the set-up and co-ordination of this network by establishing a "secretariat" for the network and AIX acting as the Chair of the network.</li> </ul>
Tasks	
<ol style="list-style-type: none"> <li>Mandate the AIFC GB team to act as the secretariat for the GB Alliance</li> <li>Designate internal team to set up the GB Alliance</li> <li>Draft preliminary charter document for the GB Alliance (its mandate, outreach and operating procedures)</li> <li>Invite a handful of financial industry and industry participants to join the GB Alliance as co-founders to finalize the charter document for the GB Alliance.</li> <li>Define timeline for launching the Green Bond Alliance (Step 12).</li> </ol>	

Endorsement: Action 3	Purpose / Scope
<b>Establish formal support from Multilateral Development Banks</b> for the AIX GBF and the Green Bond Alliance.	<ul style="list-style-type: none"> <li>MDBs, such as the EBRD, are likely to play an important role in supporting the growth of a green bond market in Kazakhstan. This support can come e.g. through capacity building, direct participation in bond issuances and fostering links to international green bond networks.</li> <li>For AIFC, EBRD's support of the GBF and potential pilot / test GB projects is an important signal of endorsement which should be used in broadening the local network through the Green Bond Alliance.</li> </ul>
Tasks	

1. Propose formal statement from EBRD Kazakhstan on supporting the AIFC GBF, committing itself to support established goals (such as pilot studies) and the long-term mandate of AIFC.
2. Invite EBRD as a founding member into the Green Bond Alliance.

## 2.3 Step 2: Guidelines

### Overall purpose

A key role of the AIFC is to provide the definitions, criteria and procedural guidelines that underpin the local green bond market. The rules for green bonds established through the guidelines and recommended actions below will form the basic rulebook for green bonds under the AIX. These rules are set to combine localized eligibility criteria with international standards and procedural guidelines for green bonds into one document. The recommendations below seek to establish a two-pronged process for issuance and listing of green bonds on the AIX. Importantly, the decision by an issuer to use the AIX GBF is voluntary, and by not choosing a green bond listing, the issuer would still be able to issue a normal bond.

At a point where an issuer chooses to issue a green bond through AIX it will have to comply with the mandatory green bond rules and process defined by the AIX GBF. These rules require, at minimum, a 2<sup>nd</sup> opinion statement on a project meeting the eligibility criteria<sup>1</sup>. A second alternative is offered through the International Climate Bonds Standard, where a certification through the International Climate Bonds Standard could be used instead of the AIX green bond process. Under the former path, the green bond would be listed upon meeting the localized rules and having this confirmed through an independent review. Under the latter path, a green bond would independently seek certification against the Climate Bonds Standard and subsequently list on the AIX. The process of certification under the Climate Bonds Standard is managed separately and independently by the Secretariat organisation, the Climate Bonds Initiative. This approach would allow issuers to match the level of green bond assurance to their own circumstances and investor expectations. The two proposed pathways for achieving a green bond listing on the AIX are shown in Figure 5 below.

---

<sup>1</sup> Verification and certification typically require a stronger level of assurance than a 2<sup>nd</sup> opinion by the independent entity that provides the independent review of a green bond. As the AIX GBF evolves, and project-specific technical criteria become available, the AIX GBF should endorse the use of verification or certification above 2<sup>nd</sup> party opinions. This would imply that 2<sup>nd</sup> party opinion can be used only in the absence of sector-specific technical criteria.

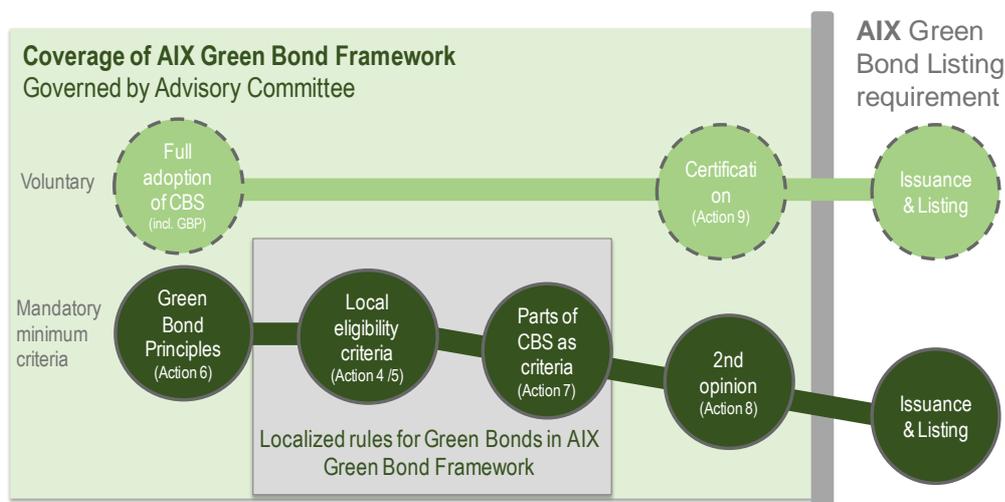


Figure 5. Proposed dual pathways for green bond listing on AIX

### Recommended key actions for AIFC

Guidelines: Action 4	Purpose / Scope
<p><b>Adapt MDB green finance definition</b> as starting point for localized project categories eligible as green bonds on the AIX</p>	<ul style="list-style-type: none"> <li>Project Task B.3 “Green Definitions and Standards” recommends the AIFC to set a common definition for all AIFC domiciled institutions on activities that are eligible for green financing/investment based on the Common Principles for Climate Mitigation Finance Tracking by Multilateral Development Banks.</li> <li>The purpose is to anchor green bond eligibility to this general AIFC green finance definition and use this as a starting point for specific eligibility categories for green bonds.</li> <li>The list of project categories included in the Common Principles could be “localized” by the AIFC, i.e. short-listed to <u>include</u> green project categories that are relevant for the Kazakhstan green bond market or <u>exclude</u> project categories that do not meet the expectations of the green bond market.</li> <li>Note: The proposed dual pathway for green bond listings (Figure 5.) allows prospective issuers to use The Climate Bonds Taxonomy<sup>2</sup> as the green definition when seeking bond certification through the Climate Bonds Standard.</li> </ul>
Tasks	
<ol style="list-style-type: none"> <li>Identify the project categories, sub-categories and eligible activities for green financing listed in Annex 1 of the Common Principles.</li> </ol>	

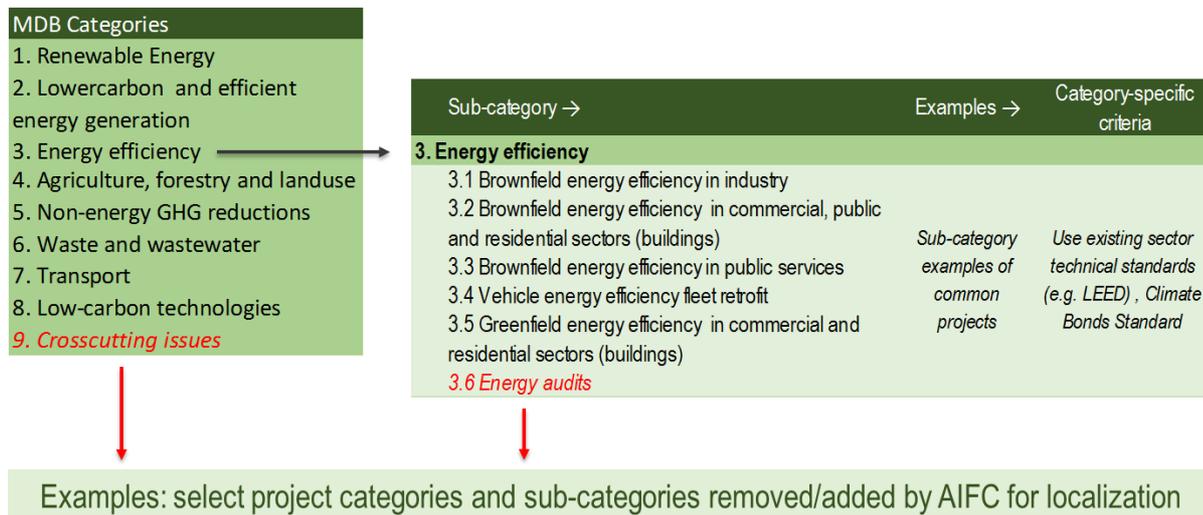
<sup>2</sup> The Climate Bonds Taxonomy defines the project categories and project that are eligible for certification under the Climate Bonds Standard. Accessed here: [https://www.climatebonds.net/files/files/cbi-green-climate-definitions-v1\\_2.xlsx](https://www.climatebonds.net/files/files/cbi-green-climate-definitions-v1_2.xlsx)

2. Create preliminary “AIX Green Bond Taxonomy” by excluding select project categories and sub-categories from the MDB list and add any locally prioritized categories not on list. Provide clear and transparent argumentation for any changes to the list.
3. The preliminary “AIX Green Bond Taxonomy” should be approved by the AIFC Green Bond Advisory Committee (see Section 2.3) for public market review together with technical criteria (Action 5).
4. Review and commentary of “AIX Green Bond Taxonomy” by local and international stakeholders should be made publicly available.
5. The AIFC Green Bond Advisory Committee should take stock of received stakeholder comments and revise the AIX Green Bond Taxonomy as needed ahead of final approval.
6. The list should ultimately be approved and adopted by the AIFC Green Bond Advisory Committee, through inclusion in the AIX Green Bond Framework, as the green standard defining eligible investment categories for green bond finance on the AIX.
7. The “AIX Green Bond Taxonomy” would be managed by the Advisory Committee and be subject to its revisions and updates of the Taxonomy based e.g. on revisions to the Common Principles or issuances of MDB Taxonomies related specifically to green bonds.

Resources: Table 1 in: *Common Principles for Climate Mitigation Finance Tracking, Version 2, June 15, 2015*

Guidelines: Action 5	Purpose / Scope
<p><b>Define specific technical criteria</b> for select eligible activities in the AIX Green Bond Taxonomy</p>	<ul style="list-style-type: none"> <li>• The “AIX Green Bond Taxonomy” created in Action 4 above includes generic descriptions on eligible activities under each sub-category (e.g. Renewable Energy → Electricity Generation → Hydropower plants) some of which have added short descriptive criteria.</li> <li>• The “AIX Green Bond Taxonomy” should be expanded with specific technical criteria for select eligible project categories to define what technical parameters or operational circumstances should be met.</li> <li>• The added technical and environmental criteria should be put in place to increase assurance on the positive environmental impact of the green bond.</li> <li>• At minimum, criteria should be added for select sub-categories where environmental benefits are deemed “at risk” by the Advisory Committee. Examples of such sub-categories are e.g. fossil fuel projects such as retrofits and energy efficiency in thermal power plants, biomass energy, large-scale hydroelectric projects and retrofit projects.</li> <li>• The Advisory Committee should use available external references for defining technical criteria. Such references could be:               <ul style="list-style-type: none"> <li>• Climate Bonds Standard project criteria</li> <li>• Project eligibility requirements under the methodologies of the UNFCCC Clean Development Mechanism</li> <li>• Sectoral technical standards</li> </ul> </li> </ul>
Tasks	
<ol style="list-style-type: none"> <li>1. AIFC Green Bond Advisory Committee to review all approved eligible activities in the “AIX Green Bond Taxonomy” and decide which eligible activities need further technical criteria.</li> <li>2. The “AIX Green Bond Taxonomy” could temporarily exclude eligible activities that are waiting for criteria to be added, thus not preventing the Taxonomy to be released in the GBF.</li> <li>3. The Advisory Committee should separately approve and publish added technical criteria.</li> </ol>	

Figure 6 below provides a generic illustration of the recommendations in Action 4 and Action 5 above. The process of localizing the MDB project categories takes place in two steps; first, the list of categories and sub-categories is expanded or narrowed based on local needs, second, sub-category eligibility criteria is added for select sub-categories deemed necessary by the AIFC Green Bond Advisory Committee.

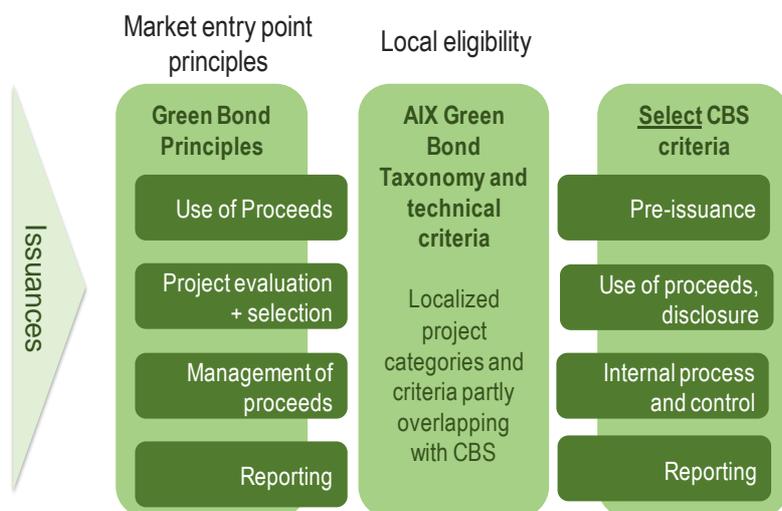


**Figure 6.** Localization of MDB project categories for AIX Green Bond Taxonomy

Guidelines: Action 6	Purpose / Scope
<b>Adopt Green Bond Principles</b> as the procedural guideline for the AIX Green Bond Framework.	<ul style="list-style-type: none"> <li>The Green Bond Principles (GBP) provide voluntary best practice guidelines on use-of-proceeds, project selection, management of proceeds and reporting.</li> <li>The GBP should be adopted into the AIX Green Bond Framework as a market entry point principles that green bond listings need to meet.</li> <li>The requirements set by the GBP are complemented by the localized rules for green bonds in the AIX Green Bond Framework including localized eligibility criteria (Actions 4 and 5) and select segments of Green Bond Standards (Action 7)</li> </ul>
Tasks	
	<ol style="list-style-type: none"> <li>The Advisory Committee should formally adopt the latest version of the Green Bond Principles as part of the requirements under the AIX Green Bond Framework.</li> <li>The Advisory Committee should note that the Green Bond Principles forms the market entry requirement of the AIX Green Bond Framework.</li> </ol>
References: Green Bond Principles, June 16, 2016	

Guidelines: Action 7	Purpose / Scope
<p><b>Adopt select criteria from the Climate Bonds Standard to complement the GBP and local eligibility criteria in the AIX Green Bond Framework.</b></p>	<ul style="list-style-type: none"> <li>• Select criteria from the Climate Bonds Standard (v 2.1) should be used to strengthen the alignment of the AIX Green Bond Framework with international standards.</li> <li>• Select pre- and post-issuance requirements that safeguard obligations on use-of-proceeds, management of proceeds and reporting.</li> <li>• These could include:               <ul style="list-style-type: none"> <li>• Pre-issuance 1.1.1 – Statement of the environmental objectives of the bond</li> <li>• Pre-issuance 1.2 - all proposed nominated projects &amp; assets to be associated with the bond meet the bond’s documented objectives</li> <li>• Pre-issuance 1.3 – documenting nominated projects and assets</li> <li>• Pre-issuance 3.1.1-3.1.3 – disclosing investment areas into which projects and assets fall, types of temporary instruments used for the management of unallocated proceeds, name of 2<sup>nd</sup> opinion provider pre- and post-issuance</li> <li>• Internal processes and controls 2.1</li> <li>• Use-of-proceeds (A) 5, Non-contamination of proceeds 6.1-6.2</li> <li>• Reporting (A) 8</li> </ul> </li> </ul>
Tasks	
<ol style="list-style-type: none"> <li>1. The AIFC/AIX Green Bond Team should, using the recommendations above, review and include the above sections into the local eligibility criteria.</li> <li>2. Upon proposal from the AIFC/AIX Green Bond Team the Advisory Committee should formally adopt the selected paragraphs / clauses from the Climate Bonds Standard as a mandatory requirement into the eligibility criteria.</li> </ol> <p>References: Climate Bonds Standard v 2.1</p>	

Actions 4-7 above make up the green bond eligibility criteria in the AIX Green Bond Framework to safeguard the environmental credentials of the green bond. These can be grouped in to three categories. First, the Green Bond Principles provide the market entry guidance on the process of creating a green bond. Second, the AIX Green Bond Taxonomy (consisting of eligible project categories and sub-categories) and additional technical criteria form the local eligibility requirements. Third, specific requirements from the Climate Bond Standard add segments on governance from an international standard into the overall eligibility criteria.



**Figure 7.** Combining Green Bond Principles, local eligibility criteria and an international standard into the AIX Green Bond Framework

Guidelines: Action 8	Purpose / Scope
<p><b>Establish the process for providing an independent review</b> on a project/asset meeting the eligibility criteria set by the AIX Green Bond Framework.</p>	<ul style="list-style-type: none"> <li>• The AIX Green Bond Framework should operate on the basis of an independent review of projects seeking to be listed as green bonds. Any project to be listed as a green bond on the AIX must prove that it has met all the eligibility requirements in the AIX GBF. This should be done by having an independent expert (see section XX, Action X), provide a written report explaining how the eligibility criteria have been met.</li> <li>• The independent review should take the form of a pre-issuance 2<sup>nd</sup> opinion or a pre-issuance verification report.</li> <li>• A 2<sup>nd</sup> opinion should be provided only during a defined transition phase and when project-specific technical criteria are not available.</li> <li>• The 2<sup>nd</sup> opinion is an expert opinion that investors can review to understand the green credentials of the bond.</li> <li>• A pre-issuance verification report is formal independent verification that a project meets the technical- and other eligibility requirements set by the AIX GBF. The independent review should take the form of a verification whenever possible as this provides a stronger endorsement of green credentials by the independent expert.</li> <li>• The choice of the independent expert is up to the issuer to decide.</li> <li>• In order to ensure that investors have the same amount and the same type of information on each bond, it is advisable that a common reporting format is established for the independent review process following e.g. guidance by the Green Bond Principles. This would include two documents: 1) an “AIX Green Bond Project Report” that provides a description of the project/asset and all the information required for meeting the AIX GBF eligibility criteria, 2) an AIX template for the independent review (pre-issuance 2<sup>nd</sup> opinion or verification) - a uniform report that 2<sup>nd</sup> opinion providers should use.</li> </ul>

- The process for providing “AIX Green Bond Project Report” and the independent review should be matched with the normal bond issuance process (see Figure 4); the green bond project information should be added into the Bond’s prospectus (as a separate addendum) and the pre-issuance independent review should be provided by the opinion provider and published by AIX before the bond’s issuance.

### Tasks

1. The requirement to undertake an independent review (2nd opinion or verification) should be formally established by the AIX and the process (timeline, reporting formats) made publicly available within the Green Bond Framework.
2. The process for publishing an AIX Green Bond Project Report and issuing an independent review should be matched to the listing process of a bond on the AIX. The Project Report should be made available by the time of publishing the prospectus and the pre-issuance independent review ahead of issuance.
3. The Advisory Committee should define the rules on the form of independent review; a 2<sup>nd</sup> opinion could be used in a transition phase as the market is established for all issuances and later only where technical criteria are not available. A verification statement should be the default format of independent review.
4. The Advisory Committee should draft templates for both documents using available examples from the Green Bond Principles and Climate Bonds Standard. These should establish a reporting format with headlines for each content segment provided. Separate explanations could be added for each segment (criteria) to explain what information should be provided in the reports.

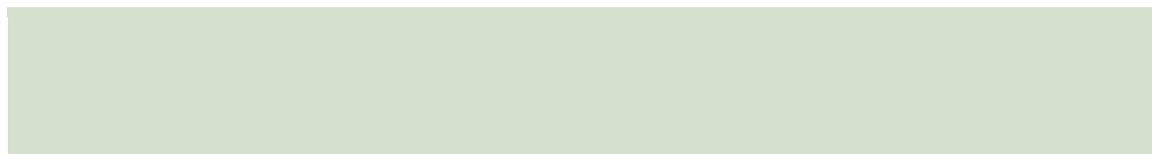
### References/Examples:

- Luxembourg Green Exchange, 2nd party opinion on Enel Green Bond, December 2016
- Climate Bonds Standard Verification Report, KPMG August 2017 for the City of Cape Town

Guidelines: Action 9	Purpose / Scope
<p><b>Establish a separate voluntary process to use Climate Bond Certification</b> as an alternative process for meeting the AIX Green Bond listing requirement.</p>	<ul style="list-style-type: none"> <li>• Figure 4 above illustrates the proposed two-pronged approach on green bond approval under the AIX Green Bond Framework. Action 5 above presented the process for using the mandatory second opinion for achieving compliance with the AIX GBF.</li> <li>• Separately, AIX should provide the option for issuers to certify their bonds independently under the Climate Bonds Standard.</li> <li>• Obtaining a Climate Bonds Certification would offer a separate and alternative listing process for issuers that may value an international certification.</li> <li>• A certified Climate Bond would be automatically meet the green bond listing criteria of AIX.</li> <li>• This approach should help AIX advance its international network.</li> </ul>

### Tasks

1. The AIFC/AIX Green Bond Team should include in the AIX GBF the possibility for issuers to use Climate Bond Certification as an alternative route to list on the AIX Green Bond List. In this case the process of certification shall be managed by the issuer and the Climate Bonds Initiative and the issuer shall bear the responsibility of submitting the pre-issuance verifier’s report from the Climate Bonds Certification process to the AIX bond listing process.



Guidelines: Action 10	Purpose / Scope
<p><b>Establish post-issuance rules for listed green bonds</b></p>	<ul style="list-style-type: none"> <li>• Upon issuance and listing a green bond issuer has certain reporting obligations that are specific to the “green”-part of the bond. Green bond holders need annual information that the proceeds have been spent as planned and information on the status (and performance) of the finance projects.</li> <li>• Potential green bond issuers on the AIX need to understand the process for reporting post-issuance.</li> <li>• AIX should provide guidance on post-issuance reporting obligations, drawing on guidance in the Green Bond Principles and Climate Bonds Standard. This guidance should include:               <ul style="list-style-type: none"> <li>• Frequency of reporting (annual)</li> <li>• Form of reporting (by issuer / independent expert)</li> <li>• Format of document (set template)</li> <li>• Contents (covered by Action 4)</li> </ul> </li> <li>• In order to ensure that investors have the same amount and the same type of information on each bond, it is advisable that a common reporting format is established for the annual reporting process. This would include one document: “AIX Green Bond Annual Project Summary”.</li> <li>• The process for providing “AIX Green Bond Annual Project Summary” should be matched with reporting processes under normal bond reporting rules on the AIX</li> </ul>
Tasks	
<ol style="list-style-type: none"> <li>1. The Advisory Committee should formally decide on an annual post-issuance reporting requirement.</li> <li>2. The requirement to issue an annual green bond project summary should be formally established by the AIX and the process (timeline, reporting formats) made publicly available in the Green Bond Framework.</li> <li>3. The AIFC/AIX Green Bond Team should draft a template for an Annual Project Summary based on the requirements set by criteria in Action 4/5 for the approval of the Advisory Committee.</li> </ol>	

## 2.4 Step 3: Oversight

### Overall Purpose

As indicated in section 2.3 above the governance and oversight of the AIX Green Bond Framework would be placed in a separate body, the AIFC Green Bond Advisory Committee. This body would govern the AIX Green Bond Framework and have responsibility of all criteria, templates and documents that make up the Green Bond Framework and govern the green

credentials. The day-to-day management of the Framework would be tasked to the AIX/AIFC Green Bond Team with the responsibility to operationalize, manage and develop the Framework.

The Advisory Committee could be Chaired by AIFC (AIX) and include members from the AIFC Green Bond Team (team leader), international experts and domestic bond finance experts and environmental specialists.

### Recommended Actions

Oversight: Action 11	Purpose / Scope
<p><b>Set-up the AIFC Green Bond Advisory committee</b> to govern the AIX Green Bond Framework</p>	<ul style="list-style-type: none"> <li>• The role of the Advisory Committee is to govern the AIX Green Bond Framework as an independent body.</li> <li>• For purposes of transparency and clarity it is proposed that the Advisory Committee is separate to the AIFC/AIX Green Bond Team and that it operates on a specific mandate defined by its charter document.</li> <li>• A streamlined charter document should set-up the basic operating premises and responsibilities of the Advisory Committee:               <ul style="list-style-type: none"> <li>• Purpose – to govern, manage and update the eligibility criteria for green bonds under the Framework and approve all related documents.</li> <li>• Objective - ensure the eligibility criteria are aligned with the expectations of market participants in Kazakhstan while ensuring environmental credibility of the bond’s green credentials.</li> <li>• Management – The Advisory Committee could be Chaired by AIFC (AIX) and include members from the AIFC Green Bond Team (team leader/secretariat), international green bond experts, domestic bond finance experts and local academia/environmental specialists.</li> <li>• Governance – the Committee could operate through regular meetings where it decides on issues that are brought to it by the AIX/AIFC Green Bond Team.</li> <li>• Reporting – Committee would report publicly on its decisions and changes to the eligibility criteria and document templates.</li> </ul> </li> </ul>
Tasks	
<ol style="list-style-type: none"> <li>1. The Green Bond Team should draft, and the AIX/AIFC leadership should approve a charter document (“Terms of Operation”) for the Advisory Committee and appoint a Chairperson for the Committee.</li> <li>2. A shortlist of external candidates should be put together and these invited into the Advisory Committee with the “Terms of Operation”.</li> <li>3. Given the importance of the Advisory Committee in the set-up of the eligibility criteria and approving reference documents, the creation of the Advisory Committee should be a priority in the process of launching the AIX Green Bond Framework</li> </ol>	

Establishing connections to international green bond networks should be an early priority of the AIFC/AIX Green Bond Team. International networks open up possibilities for knowledge transfer, co-operation on product development and rules and standards. The AIFC should consider joining two international networks:

- Green Bond Principles, as an Observer Member.
- Climate Bonds Initiative as a Climate Bonds Partner.

## 2.5 Step 4: Mobilization

### Overall purpose

The fourth step in building the Green Bond Framework is focused on activating stakeholders into an active network around green bond market development in Kazakhstan. This is an important step in building a broad long-term base for local market growth through training and knowledge sharing to potential issuers, facilitating the emergence of local service providers to the green bond market (2<sup>nd</sup> opinion providers, verifiers and certifiers) and creating a collective of green bond market participants and projects that can be presented to international green bond investors through roadshows and other events.

AIFC's unique role in Kazakhstan's financial landscape and its emphasis on the green bond market allows it to take on an important facilitative role in mobilizing the local market. This applies to market structures, building local market buy-in and critical mass and international recognition. The actions recommended below focus specifically on the critical actions that AIFC/AIX should take in mobilizing interest in the Kazakhstan green bond market within the Green Bond Framework.

### Recommended actions

Mobilization: Action 12	Purpose / Scope
<p><b>Activate the Kazakhstan Green Bond Alliance</b> set up in Action 2.</p>	<ul style="list-style-type: none"> <li>Action 2 above set up the foundation for a “Green Bond Alliance” in Kazakhstan where AIFC as the founder and chair, together with a handful of key market participants set-up the operating foundation for the Alliance.</li> <li>The “Green Bond Alliance” should be open to membership by any interested industrial and financial parties in Kazakhstan.</li> <li>The activation of the Alliance means that the AIFC/AIX Green Bond team, acting as the Secretariat for the Alliance would start registering organisations as members upon interest and disseminate information to the network.</li> <li>The Alliance should be mobilized as part of the market discovery process described in Chapter 3 where the eligibility criteria, key documentation and process in the Green Bond Framework is presented and made available to network members.</li> </ul>
Tasks	
<ol style="list-style-type: none"> <li>The AIX/AIFC Green Bond Team should make information (purpose, goals and organisation) about the Alliance available (website) to the public and open up membership to interested organisations.</li> <li>Members invited to the structured market discovery process to provide information on how the Green Bond Framework is aligned with market expectations and perceptions.</li> <li>Operationalize the management structure in the Green Bond Alliance Charter document (Step 2)</li> </ol>	

The creation of a network of local technical service providers for the green bond market will undoubtedly be an critical part of a functioning market. The process envisioned for the Green

Bond Framework relies on the availability of independent experts to provide 2<sup>nd</sup> party opinions and verification statements, a capacity which may initially be of limited availability in Kazakhstan. However, the 2<sup>nd</sup> party opinion required in the process described in Step 8 above does not initially rely on independent experts having a deep financial or specific technical understanding. The basic expertise of technical consultants and existing verification and certification organisations in Kazakhstan (e.g. entities and experts trained for the Kazakhstan Emission Trading Scheme) should be able to build the internal capacity to provide qualified and critical 2<sup>nd</sup> opinions with the support of training from the AIFC.

The current 2<sup>nd</sup> opinion market for international green bond issuances is served by a wide mix of companies. Many of these companies provide 2<sup>nd</sup> opinions, verification and certification services, depending on the location of the issuance and the need of the issuer. These companies include e.g; specialist sustainable finance, environmental and ESG consultancies such as OEKOM Research AG, Sustainalytics, True Cost, Vigeo Eiris; auditors such as PWC, EY and KPMG; certification bodies such as DNV GL; and, climate research organisations such as CICERO. Some of these organisations provide green bond services globally and would be able to support a nascent green bond market in Kazakhstan by providing 2<sup>nd</sup> opinions or verification statements to early issuances. In addition, service providers in local green bond markets such as India and China may provide alternative solutions.

Ultimately, a key goal of the Green Bond Alliance under the AIX Green Bond Framework is to build domestic verification capacity to serve the local green bond market.

Mobilization: Action 13	Purpose / Scope
<p><b>Build network of local service providers</b> for the green bond market.</p>	<ul style="list-style-type: none"> <li>• Building a local network of potential service providers is a vital action to mobilize the local market for green bonds.</li> <li>• In order to activate this, a group of potential local service providers (technical consultant, environmental experts, financial consultants) need to be identified and mobilized through workshops and training.</li> <li>• AIX should impose criteria on companies looking to provide 2<sup>nd</sup> opinions on AIX green bond issuances. These criteria could include, e.g.;               <ul style="list-style-type: none"> <li>• Requirements related to independence (no conflicts of interest in management, directorship and financial relationship to issuer)</li> <li>• Technical expertise, e.g. proven track-record in understanding technical characteristics and performance of low-carbon and environmental projects in line with the eligibility criteria</li> <li>• Financial expertise; understanding debt instruments and capital markets and process of managing funds by issuing organisations.</li> </ul> </li> <li>• At a later point requirements could be adjusted to include provisions that assurances are in line with international standards (e.g. ISAE3000).</li> <li>• The Green Bond Alliance could, once established, have a separate workgroup or sub-group working on developing the quality of assurances and transition the market from 2<sup>nd</sup> opinions to verification statements.</li> </ul>
Tasks	
<ol style="list-style-type: none"> <li>1. The AIX/AIFC Green Bond Team should make a long-list of potential local service providers to approach them on possibilities in servicing the green bond market through a workshop on green bonds.</li> <li>2. The AIX/AIFC Green Bond Team should prepare a list of criteria “Second opinion provider criteria” for approval by the Advisory Committee as the requirements imposed on any second provider working on AIX green bond issuances.</li> </ol>	

3. The AIX/AIFC Green Bond Team should prepare specific training on green bonds and independent reviews through the AIFC Bureau for Continuing Professional Development for potential issuers, potentially working with e.g. the Climate Bonds Standard certification team.
4. The AIX/AIFC Green Bond Team should reach out to select international verifiers and 2<sup>nd</sup> opinion providers to map out their capacity to serve a green bond issuance in Kazakhstan under the AIX Green Bond Framework.

The process outlined in the Green Bond Framework for green bond issuances on the AIX is based on creating an add-on process that bond issuers that meet the eligibility criteria can elect to use in parallel with the normal bond issuance process. In order for AIX to establish and build the green bond market, issuers should be provided training on green bonds, the AIX Green Bond Framework and the pre/post -issuance requirements. A specific training module should be set up to support this.

Mobilization: Action 14	Purpose / Scope
<p><b>Training for issuers</b> in the green bond market.</p>	<ul style="list-style-type: none"> <li>• The local market of issuers needs to be educated in green bonds; the market, their benefits, the process of issuing a green bond etc.</li> <li>• Issuers need to build comfort and trust in the process created by the AIX Green Bond Framework in order to consider the prospect and benefits of issuing a green bond.</li> <li>• The AIFC Bureau for Continuing Professional Development is well placed to provide a training for market participants e.g. to Green Bond Alliance members under different training modules.</li> <li>• Training modules could include following topics:               <ul style="list-style-type: none"> <li>• Preparations: structure of green bond market, market benefits</li> <li>• Pre-issuance; process, eligibility criteria, reporting requirements</li> <li>• Post-issuance; use-of-proceeds reporting, monitoring</li> </ul> </li> </ul>
Tasks	
<ol style="list-style-type: none"> <li>1. The AIX/AIFC Green Bond Team should create a green bond market training outline for the AIFC Bureau for Continuing Professional Development based on which green bond training modules could be developed for potential issuers.</li> <li>2. The AIFC Bureau for Continuing Professional Development / AIX should evaluate if training in green bonds can be integrated to other (if any) capital markets training or workshops that may be created ahead of the launch of the AIX.</li> <li>3. Training could also be provided for a larger audience (not just issuers) through the Green Bond Alliance by the AIFC/AIX Green Bond Team.</li> </ol>	

A later step in the mobilization process is that of creating a pipeline of investable projects towards international bond investors and marketing these through specific green bond roadshows. Providing visibility of long-term prospects, bond types and issuance volumes for investors helps build interest in the market and weigh green investment prospects in Kazakhstan against other emerging markets. The AIFC/AIX Green Bond Team should utilize the Green Bond Alliance to start building a pipeline of prospective green bond projects that meet the AIX eligibility criteria and could be presented in a portfolio of potential green bonds in Kazakhstan.

It is important to emphasize the benefit of creating a long-term plan for approaching the international market with green bonds, not only by using existing marketing channels through domestic and international underwriters but also through more generic marketing of the green bond opportunity in Kazakhstan through investor roadshows.

## 2.6 Summary of recommendations in the Roadmap

Chapter 2 has provided a list of recommended actions to create the AIX Green Bond Framework. The Green Bond Framework is made up by several different actions that are summarized in table 2 below.

Area	Action	Task	Contribution to AIX Green Bond Framework
Endorsement	1	Cement internal <b>leadership endorsement</b> of AIX Green Bond Framework and for establishing an internal green bond organisation	Governance and management
	2	Invite a handful of key domestic financial institutions to define a mandate for and set up the Kazakhstan " <b>Green Bond Alliance</b> "	Governance and management
	3	<b>Establish formal support from Multilateral Development Banks</b> for the AIX GBF and the Green Bond Alliance.	Governance and management
Guidance	4	<b>Adapt MDB green finance definition</b> as starting point for localized project categories eligible as green bonds on the AIX	Green Bond Framework Document
	5	<b>Define specific technical criteria</b> for select eligible activities in the AIX Green Bond Taxonomy	Green Bond Framework Document
	6	<b>Adopt Green Bond Principles</b> as the procedural guideline for the AIX Green Bond Framework.	Green Bond Framework Document
	7	<b>Adopt select criteria from the Climate Bonds Standard</b> to complement the GBP and local eligibility criteria in the AIX Green Bond Framework.	Green Bond Framework Document
	8	<b>Establish the process for providing an independent review</b> on a project/asset meeting the eligibility criteria set by the AIX Green Bond Framework.	Green Bond Framework Document
	9	<b>Establish a separate voluntary process to use Climate Bond Certification</b> as an alternative process for meeting the AIX Green Bond listing requirement.	Green Bond Framework Document

	10	<b>Establish post-issuance rules for listed green bonds</b>	Green Bond Framework Document
Oversight	11	<b>Set-up the AIFC Green Bond Advisory committee</b> to govern the AIX Green Bond Framework	Governance and management
Mobilization	12	<b>Activate the Kazakhstan Green Bond Alliance</b> set up in Action 2.	Mobilization strategy
	13	<b>Build network of local service providers</b> for the green bond market	Mobilization strategy
	14	<b>Training for issuers</b> in the green bond market.	Mobilization strategy

**Table 2.** Summary of recommended actions for the Green Bond Framework

## 2.7 Preliminary timeline, Initiation Phase 2017-2018

The preliminary recommended timeline for the Green Bond Framework shown in table 3 below is aligned with the overall timeline for the Green Financial System presented in the Roadmap document. The Roadmap divides recommended actions into three phases: Initiation Phase (2017-2018), Deepening Phase (2019-2022) and Expansion Phase (2022-2025). The timeline presented below relates solely to the Initiation Phase.

The timeline below emphasizes the need for AIFC to mobilize internal resources towards the Green Bond Framework in Q4 2017 in order to fully conceptualize the recommendations for the Green Bond Framework in the Roadmap and operationalize recommendations. To this end, setting up an AIFC/AIX Green Bond team and the Green Bond Advisory Committee are vital steps to mobilize Roadmap.

Date	Action
9 / 2017	Workshop, Final Presentation and Approval of Roadmap for AIFC Green Bond Framework
9-12 /2017	Formalize internal support for AIX Green Bond Framework; set-up AIFC/AIX Green Bond team and the Green Bond Advisory Committee for developing and managing the AIX Green Bond Framework (Roadmap ID: C1, C2)  Invite select key domestic financial institutions as co-founders into Kazakhstan Green Bond Alliance (Roadmap ID: C1, C3)
Q4 17- Q118	Turn guidance and recommendations in the Roadmap into a freestanding AIX Green Bond Framework Document; localize definitions (Roadmap ID: C4), formalize GB procedures into central rulebook ((Roadmap ID: C5) and approve Framework ((Roadmap ID: C6)
Q1-Q2 2018	Process for market discovery by AIFC; review of Framework Document by local stakeholders (Green Bond Alliance).

	Adjust Framework Document to be conducive to local market situation Adopt and formalize Framework Document into AIFC regulation and governance
Q1- Q2 2018	Join international GB networks (Roadmap ID: C8)
Q2 2018	Initiate support and capacity building for service providers and issuers (Roadmap ID: C7)
H2/ 2018	Goal for reference project listing

### 3. Outline of process for market discovery by AIFC

The process ensuring local market receptiveness to the AIX Green Bond Framework is an important separate procedural step in finding the right balance between regulation and guidance in a nascent green bond market in Kazakhstan. The purpose of the recommended steps below is to ensure that the Framework is subject to scrutiny and evaluation by the bond market participants in Kazakhstan. The green bond market needs to be driven by a broad range of market participants and the Green Bond Framework document needs to be conducive to the bond market realities in Kazakhstan.

The steps listed below tie in with the recommendations and timeline in Chapter 2 .

1. Invite select key financial institutions as co-founders to the “Kazakhstan Green Bond Alliance” with a goal to become the national business network on GBs with a clear mandate to disseminate information on GBs, build consensus and ensure buy-in from issuers and financial institutions and co-ordinate GB market development. (Action 2)
2. Establish the AIFC Green Bond Advisory Committee as the governing body of the eligibility criteria of the AIX Green Bond Framework (Action 11)
3. The draft Green Bond Framework Document will be developed based on the recommendations in Actions 4-10 under a process managed by the AIFC/AIX Green Bond Team and overseen by the Advisory Committee. The resulting Framework Document should become the official “rulebook” for AIX Green Bond listings.
4. The draft Green Bond Framework Document will be launched to activate the “Kazakhstan Green Bond Alliance” and the Framework Document provided to the market in Kazakhstan in its final draft form for comments and review. The Framework Document could include a step-by-step guide as a practical guidance to market participants.
5. The process of market discovery is initiated with the launch of the Framework Document.

6. The discovery process should include a structured feedback process from Green Bond Alliance members and a feedback discussion/interview targeted at key financial institutions in Kazakhstan. A separate launch session for the Framework could be used to mobilize interest and seek input.
7. The focus of the market discovery is to find a balance between guidance and regulation in the Framework Document, i.e. ensuring the eligibility criteria and the green bond issuance process is not negating interest in the green bond market. At the same time the discovery process should be used to drum-up interest in the green bond market and motivating potential issuers to come forward with ideas for green bonds.
8. The information obtained during the market discovery process should be made public by the Green Bond Advisory Committee.
9. Any adjustments to the Framework Document should be approved by the Advisory Committee before publishing the first formal version of the document.