

# **Bond Case Briefs**

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## **Is Green Striping the Future of Green Bonds?**

Green Bonds have led a tremendous growth in environmental finance over the past five years, but that growth has been heavily-weighted towards investment grade credits with their accompanying risk/return. The predominance of investment-grade credits partially results from the all-or-nothing approach of Green Bonds – the bond is either 100% green or 0% green. The 100% green requirement shuts out many issuers seeking to finance environmentally-sustainable projects because a company needs to be sufficiently large and well-capitalized to be able to issue bonds of a sufficiently large principal amount solely for environmental purposes. Most types of bonds require a minimum principal amount to ensure secondary market liquidity, roughly speaking the equivalent of \$200 million. This especially shuts out smaller and more highly leveraged companies.

To diversify Green Bonds, it may be possible for investors to rely on a promise from issuers to use a specified portion of the proceeds of a bond for environmental purposes. Currently, an issuer seeking to finance \$100 million in environmental capital expenditure would be unable to obtain a “green” credential. But if that issuer were to raise \$100 million for conventional purposes and \$100 million for environmental purposes in the same issuance, the issuer should be able to label its bond as 50% green. Rather than all green or all non-green, the bond is “Green Striped.”

To read more about “Green Striping”, [click here](#).

If you found this interesting, you might also enjoy:

[Green Bonds Need a ‘Big Tent’ Approach](#)

[What Is The Future of High-Yield Green Bonds?](#)

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