[Bond Case Briefs]

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[The Coming Backlash to 'Greenwashing' of Bonds.]

So-called green bonds, which raise money for environmentally friendly purposes, have exploded in popularity in recent years. So have concerns about "greenwashing," or making misleading claims about just how good an environmental friend the seller is. The European Union has signaled that it may step in to oversee the market, using tools such as mandatory product labels to bring greater clarity to investors.

1. How much of the bond market is green?

Green bonds accounted for less than 0.6 percent of global bond sales last year, data compiled by Bloomberg show, but they're growing fast. About $95 billion worth of green bonds were issued in 2016, twice as much as in 2015, [according to Bloomberg New Energy Finance].

2. Who sells them?

Corporations and banks, so-called supranational institutions such as the World Bank, plus governments at the local, state and national levels. Poland and France became the first sovereign issuers of green bonds in the past few months. Chinese sellers drove growth in 2016, led by a 30 billion yuan ($4.5 billion) sale by China's Bank of Communications. The largest green-bond sale in the U.S. was a $1.5 billion note by Apple Inc. in February 2016 to help reach its goal of running 100 percent of its operations on renewable energy. Municipal governments in the U.S. are also selling green bonds to finance urban infrastructure projects such as upgrades to sewage systems. In May, San Francisco's [Bay Area Rapid Transit agency issued its first green bonds], noting the role of its trains in providing "low-carbon transportation alternatives."

3. Who buys the bonds?

Institutional investors, mainly, including pension funds, insurance companies and asset managers that are being pressed by their clients to make "responsible" or "sustainable" investments. France, in 2015, became the first country to introduce mandatory environmental reporting for institutional investors: Article 173 of the French Energy Transition Law requires fund managers to disclose how they consider environmental performance when making investment decisions.

4. Does 'green' investing mean compromising on returns?

Not necessarily. The vast majority of green bonds are investment-grade and, when issued, are priced similarly to conventional debt. In the secondary market, some green bonds, such as ones sold by the European Investment Bank and the World Bank, have outperformed peers because of rising demand for sustainable investments. The Bloomberg Barclays MSCI Global Green Bond Index returned 3.44 percent in 2016.

5. Just how green are green bonds?

That depends on the bond. At least until now, there have been [no clear rules] on what green actually means. The lack of clarity has led some environmentalists to accuse bond issuers of making misleading claims about supposed environmental benefits. In China, for instance, some "green" bonds are used to finance the construction of coal-burning power plants. The idea is that the plants being financed are cleaner than their predecessors. But many environmentalists would challenge whether any coal plant could really be described as "green."

6. Who decides whether a bond is green?

That's what the European Commission, the EU's executive arm, hopes to clarify. Currently, investors must decide for themselves whether a bond deserves to be called green. To help, organizations including S&P Global Ratings and the Climate Bonds Initiative offer to evaluate and certify bonds as helping the environment. (Bloomberg LP, the parent of Bloomberg News, also provides a green-bond tag and related disclosures.) The International Capital Market Association offers Green Bond Principles to guide sellers on appropriate use of proceeds. But all of these initiatives are voluntary and carry no enforcement mechanism.

7. What's the European Commission's plan?

In an interim report released on July 13, its High-Level Expert Group on Sustainable Finance recommended the creation of "a European standard and label for green bonds and other sustainable assets." The group says labels could be an effective response to investor complaints on the lack of standards in the market.

8. Is regulation the answer?

There's disagreement on that. Some analysts argue that tighter regulation on sellers of green bonds will slow the growth of the market. Regional regulation, such as by the European Commission, may also lead to a Balkanization effect, with a bond qualifying as green in one jurisdiction but not in another.

The Reference Shelf

- The bond industry is trying to go beyond mere "green" promises.
- A Bloomberg News story on the EU's plans for green bonds.
- A QuickTake explainer on sustainable investing.
- The European Commission's interim report.
- The Bloomberg New Energy Finance research note, "Green Bonds: 2016 in Review."
- A report by consulting firm EY on financing green projects.
- There's even a Greenwashing Index.

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