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Green-Bond Guidelines Show ‘Incremental Progress’

The International Capital Market Association, a trade group, released an updated version of the “green-bond principles”–voluntary guidelines for issuers and bankers to help determine whether a bond should be labelled “green.”

It’s the first update since the guidelines were initially released in 2014, a year that saw a record $36.6 billion in new green bonds sold. The 2015 tally is currently $5.6 billion, according to the Climate Bonds Initiative.

As the market has grown, however, some investors and analysts have questioned whether the existing guidelines were strong enough to prevent bond issuers, including local municipalities, corporations and international development banks, from using green bonds for environmentally dubious projects. Whether to call a bond “green” is largely up to the issuer and underwriters.

Among the projects that have come under scrutiny is a parking garage at Salem State University near Boston. Environmental activists have questioned whether a structure that supports greenhouse-gas-emitting automobiles should be considered green. State officials have said the garage will have some electric-vehicle charging stations and is designed to meet green-building standards.

The new version released Friday updated what types of projects can be considered green, saying they should provide “clear environmentally sustainable benefits.” The guidelines previously listed categories such as renewable energy and clean transportation, but Friday’s update added climate-change adaptation to the list. The update also identified four areas of overarching concern: climate change, natural-resources depletion, biodiversity conservation and pollution.

The new version also more strongly recommended that issuers get an outside party to review their bond offering to ensure it’s compatible with the green-bond principles. The new version says some of these reviews are private but can be made public “at the discretion of the issuer.”

The update “is an incremental evolution from the previous standard and aims to provide further clarity on what can be expected from issuers,” according to updated principles. The executive committee that worked on the update includes issuers, underwriters and investors.

Like the previous version, however, the update does not explicitly exclude any types of projects, even those even involving greenhouse-gas-emitting fossil fuels. The standards “continue to reflect the diversity of opinion on the definition of green projects,” the new version says.

In February, a group of investors coordinated by Ceres, a nonprofit that focuses on sustainability, released their own guidance and took a stronger stand against fossil-fuel projects. The investors said they welcomed green bonds from all issuers but cautioned that projects involving fossil fuels may be better served with conventional bonds.

Some of those investors, such as BlackRock and Zurich Insurance Group, also served on the executive committee that worked on the updated principles.

Chris Davis, senior director of the investor program at Ceres, said on Friday that the changes were “nothing dramatic” but showed “incremental progress.” He said he would like to see a general requirement that any outside-party reviews on new green bonds be made public.

“I’m encouraged by the direction,” Mr. Davis said. “There’s some positive additions in there.”

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