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Municipal Market is 'Wild West' for Green Bonds, TIAA Says.

The \$3.7 trillion municipal market is the “wild, wild West” for so-called green bonds as issuance of such deals ramps up despite no industry-standard criteria for the securities, according to Joel Levy, group head of municipal fixed income at TIAA Global Asset Management.

There is no settled classification for what constitutes a green bond, according to Levy, who moderated a panel on sustainable investing at the National Federation of Municipal Analysts conference in Chicago on Thursday. In some ways, the label is a marketing tool, said Glen Yelton, vice president and head of impact research at SNW Asset Management, who called for an external standard to use as a benchmark.

“There are more green bonds,” said Levy, who oversees about \$350 million of the firm’s \$11 billion of municipal debt. “There will be more green bonds labeled this year than there were last year, and next year, there’ll be more than this year.”

U.S. state and local governments have issued about \$7.5 billion of green bonds since 2010, according to data compiled by Bloomberg. The designation is being used by borrowers to appeal to buyers who use social factors such as the environment, education and health care to guide their decisions.

“Because this asset type is relatively new and without industry accepted standards, investors who are interested in green bonds may want to rely on the expertise of asset managers that have the resources and knowledge to carefully evaluate the validity of the social and environmental impact of these issues,” Levy said in a follow-up e-mail on Thursday. Individual investors can use TIAA-CREF’s social choice bond fund to invest in green bonds.

Certification Providers

Green bond issuance globally, not just counting municipal debt, reached \$16.5 billion in the first quarter of this year after totaling \$42 billion last year, according to Yelton, who cited data from Climate Bonds Initiative.

Some companies and organizations such as Sustainalytics, an Amsterdam-based firm, offer certification. New York’s Metropolitan Transportation Authority sought in February to have an offering certified under standards set by the Climate Bonds Initiative, the agency’s first green-bond issue.

A green bond is a label that is “self-declared by the issuer,” said Thomas Kloc, managing director of the U.S. sustainability services practice at KPMG. It’s important that there’s some accountability and measurable metrics on what the green project is going to do going forward, he said. The issuer should be providing “enough transparency” so investors are able to decide if the bond meets their definition of green, Kloc said.

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