Climate Bonds INITIATIVE

CREDIBLE TRANSITION FINANCE TOOLS

The role of transition finance in promoting climate resilience and achieving a low-carbon future

WHAT WE DO

We create **standards** that provide definition to **credible** climate-aligned activities or whole decarbonisation plans.

We **certify** companies, bonds or loans aligned to these definitions.

CLIMATE BONDS STANDARD CERTIFIED

C. $300bn bonds and loans certified

We help institutional **investors** with their climate investing framework.

Partners

NON-EXHAUSTIVE LIST

- Amundi ASSET MANAGEMENT
- AXA Investment Managers
- BLACKROCK
- BNP PARIBAS ASSET MANAGEMENT
- CDPQ
- Fidelity INTERNATIONAL
- PIMCO
- STATE STREET GLOBAL ADVISORS

Other partners include

- SPO providers
- Banks
- Rating agencies
- Policy-makers:
  - EU Platform
  - Taxonomies: Singapore, India, etc.
  - Ministries of Finance: Japan, etc.

BENEFITS OF LABELLED BONDS

Conclusions of one year of volatile market and yield increase

Book cover

Higher average oversubscription
Higher spread compression

Pricing

Better pricing

Reputation

Green label supported deal placement in volatile markets

Issuers can rely on a strong appetite from dedicated investors

TRANSITION PROGRAMME

TRANSITION MARKET DEVELOPMENT

• The programme is focused on developing definitions, identifying the necessary policy levers for change and establishing market credibility for transition finance. The sector focus includes hard-to-abate sectors from energy, heavy industry, aviation and agriculture.

CREDIBILE TRANSITION

•To help guide the market, Climate Bonds published guidance for a credible corporate transition plan in 2021, we see transition plans as fundamental for reaching net zero and expect regulations mandating these and establishing minimum content and disclosure to increase in the coming years.

TRANSITION CRITERIA

- The core of the work is the development of our Climate Bonds eligibility criteria. To date, we have published criteria to certify Cement production, Basic Chemicals production, Steel production and Hydrogen Production.
- Work on criteria for the transition of electricity utility companies, hydrogen infrastructure, and mining has also started, with criteria scheduled for completion in 2023.

TRANSITION POLICY ADVOCACY

• Climate Bonds works with policy makers globally to identify risks and opportunities for transition, supporting central banks and supervisors to manage climate related financial risk as well as providing sector-wide guidance for the transition of steel and fossil gas in the EU, covering both real economy and financial policy levers.

• Climate Bonds is also working with policy makers and investors in Brazil, China and the EU on transitioning the agri-food systems to net –zero, and the development of criteria to guide Commodity Supply Chain , Livestock and Crop Production has also started and is scheduled for completion in 2023.

- **Transition Finance Microsite**
  Home Page:
  https://www.climatebonds.net/transition-finance-home

WHO NEEDS TO TRANSITION?

ALL SECTORS OF THE ECONOMY

ALL REGIONS

The five hallmarks of a credible company transition

CLIMATE BONDS STANDARD

TECHNICAL WORKING GROUP (TWG)

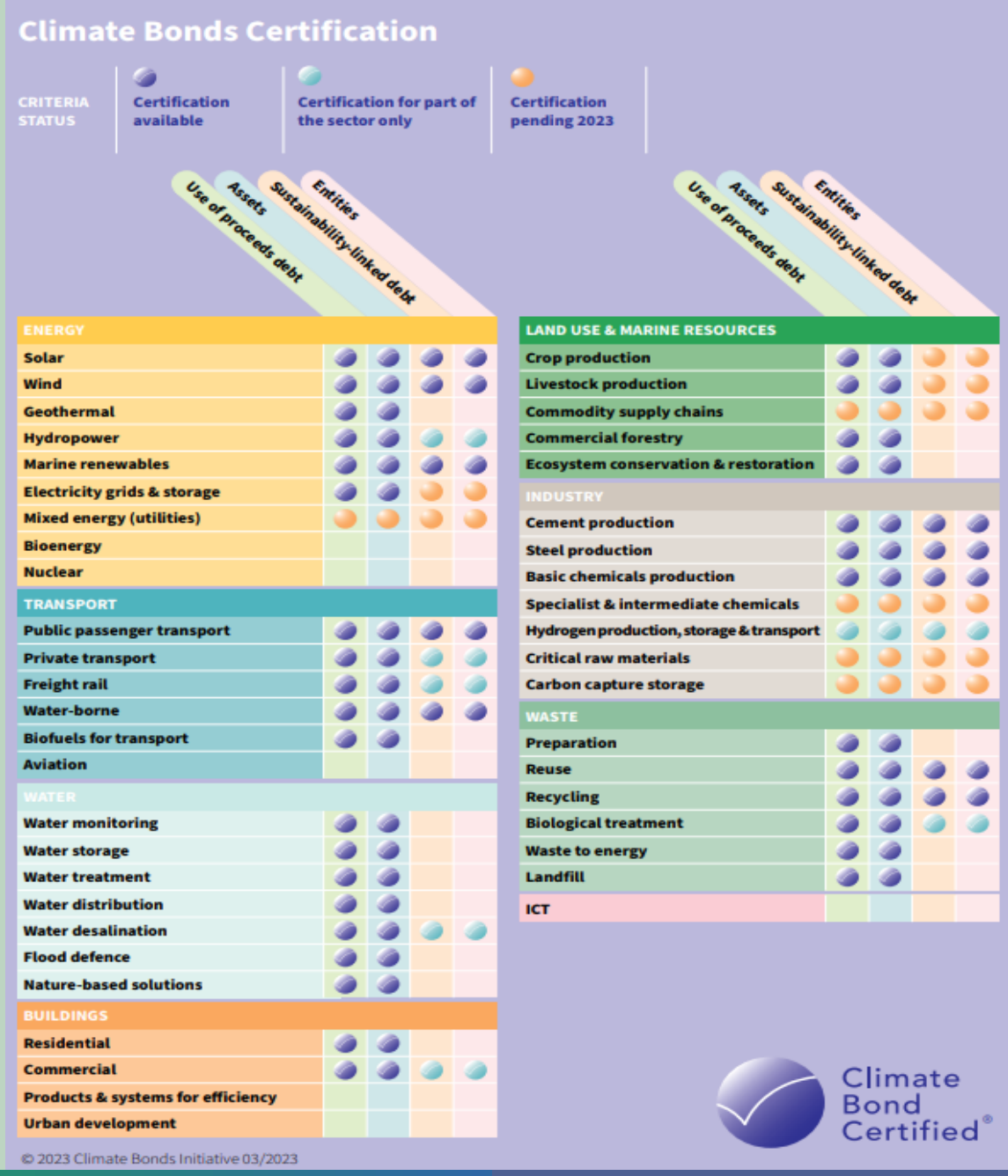
Academia, public entities, research institutes and international policy bodies worldwide

INDUSTRY WORKING GROUP (IWG)

Industry experts to review the TWG's draft criteria and provide advice

Under our expanded Certification Scheme, we can certify:

- Use of Proceeds (UoPs) debt instruments
- Assets
- Non-financial corporate entities
- Sustainability-linked debt instruments (SLDs)



Climate Bonds INITIATIVE

EXAMPLE IN STEEL SECTOR

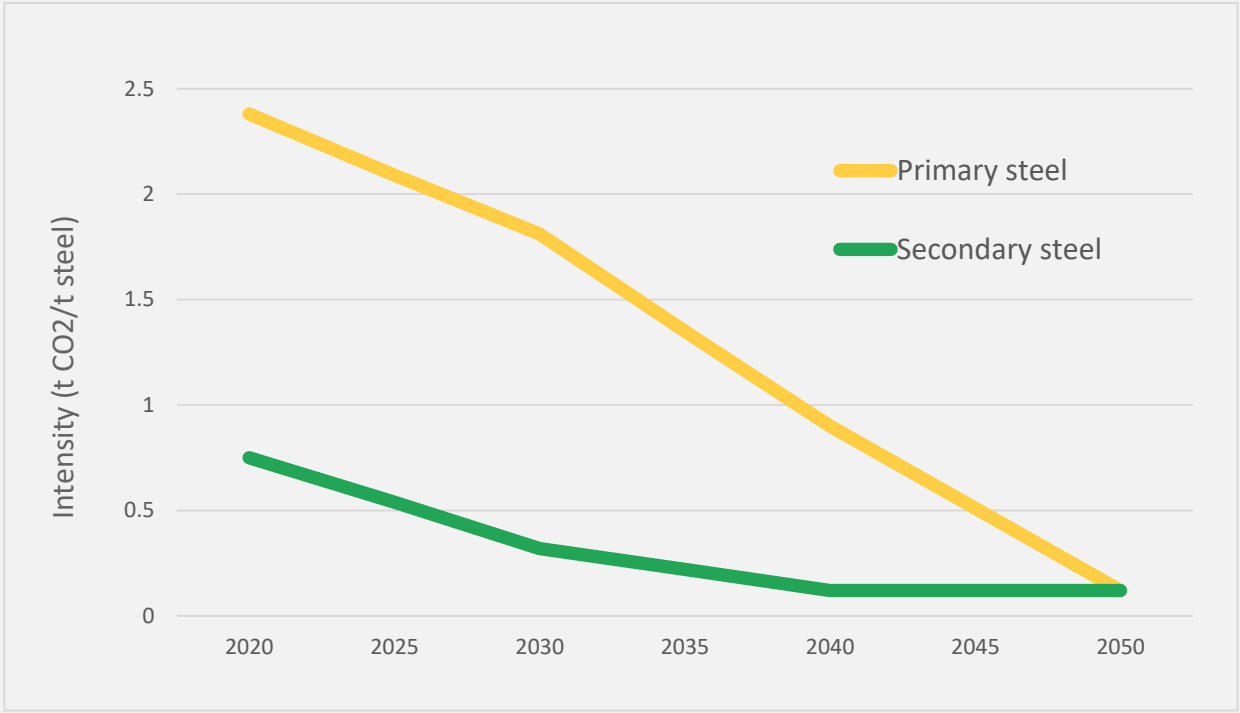
USE OF PROCEEDS

- Decarbonisation measures for existing assets. Ex. Electrification
- New assets:

BF-BOF / Smelting reduction + CCUS
Fossil gas-based DRI - EAF + CCUS
Scrap based Electric Arc Furnace (EAF)
(100%) Hydrogen-based DRI-EAF
Electrolysis of iron ore steelmaking

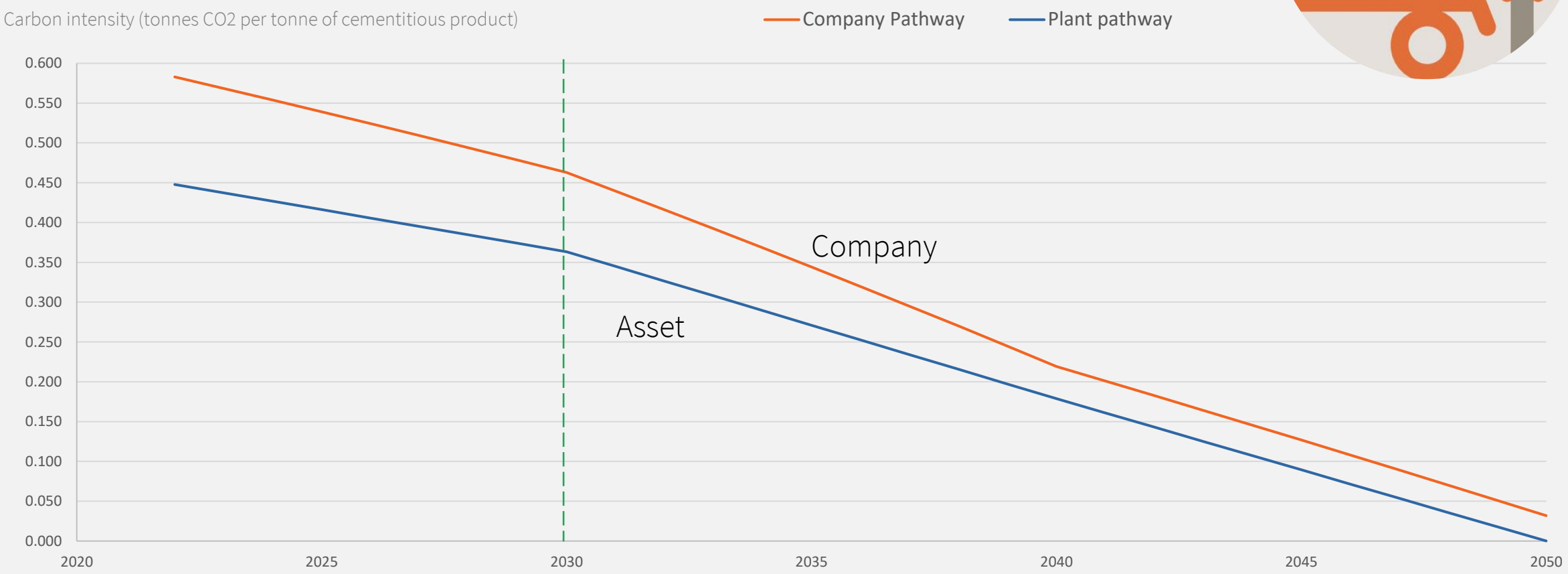
ENTITY/SLB

- Align with 1.5c pathway

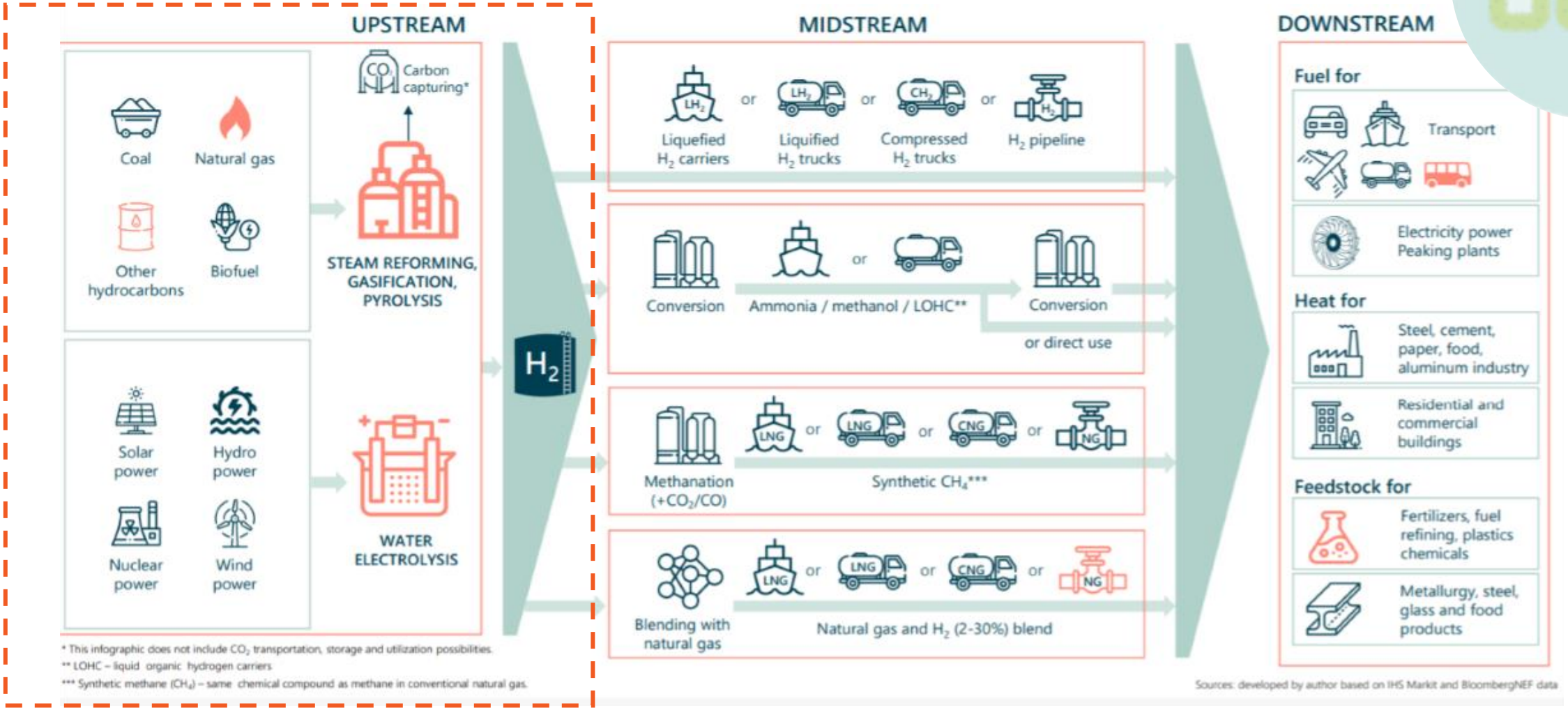


EXAMPLE FOR CEMENT PRODUCTION

THRESHOLDS FOR USE-OF-PROCEEDS AND SLB



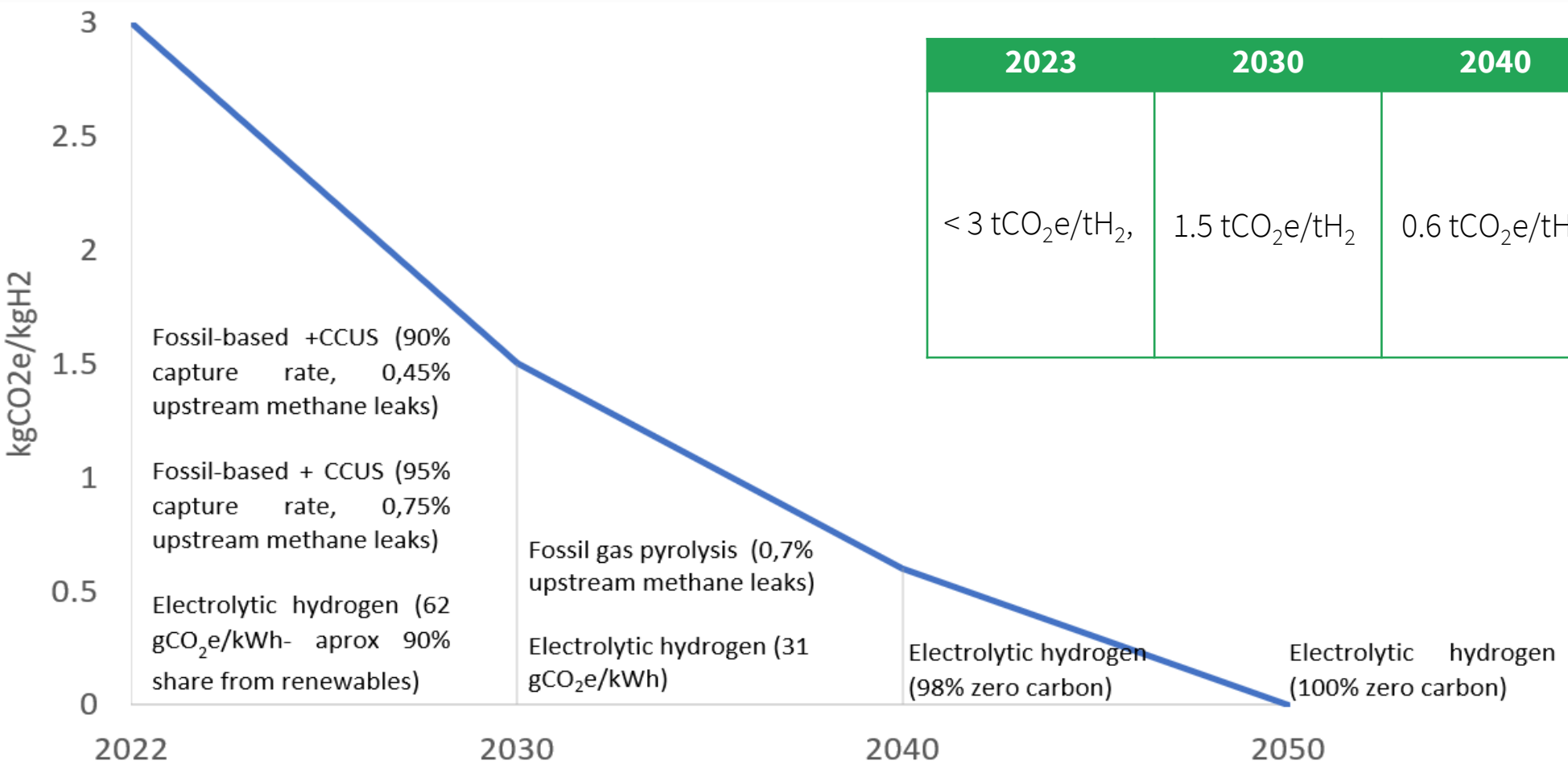
EXAMPLE FOR HYDROGEN PRODUCTION



* This infographic does not include CO_2 transportation, storage and utilization possibilities.
** LOHC – liquid organic hydrogen carriers
*** Synthetic methane (CH_4) – same chemical compound as methane in conventional natural gas.

Sources: developed by author based on IHS Markit and BloombergNEF data

HYDROGEN CRITERIA



2023	2030	2040	2050
< 3 tCO_2e/tH_2,	1.5 tCO_2e/tH_2	0.6 tCO_2e/tH_2	0 tCO_2e/tH_2 Net-zero

OVERVIEW

NEW HARD-TO-ABATE CRITERIA FOR USE-OF-PROCEEDS

	Steel	Cement	Basic chemicals	Hydrogen
Mitigation criteria	✓	✓	✓	✓
Adaptation & resilience	✓	✓	✓	✓
Use-of proceeds Investments				
Coverage	excludes mining, stainless & high alloy steels	excludes concrete mixing & standalone limestone quarrying	Only basic chemicals	Hydrogen production
New Assets	✓	✓	✓	✓
Mitigation measures/retrofits	✓	✓	✓	✓
Pathway tresholds	Technology specific	3-year pathway check OR meet average pathway value for bond tenor at time of certification	EU taxonomy	Estimations and assumptions based on EU taxonomy
Entity-level investments				
Entity-level pathway	✓	✓	For basic chemicals only	For hydrogen only
Scope coverage	Scope 1 and 2	Scope 1 and 2	Scope 1 and 2	Scope 1 and 2
Scope 3	Selectively*	Selectively**	Qualitative criteria	Upstream scope 3

*Scope 3 is not included, however, emissions from all processes within the "fix" boundary (figure 7 in criteria document) need to be consider even if these are not occurring within the facility (e.g. if the producer purchases pellets, instead of producing their own iron, they need to account for the emissions of making those pellets)

** Some upstream and downstream depending on the supply chain structure. I.e., if you do not produce clinker, but rather you purchase it to make cement, emissions of that clinker (upstream scope 3). Vice versa, if you produce clinker, but sell it to others who produce cement, you need the emissions of the final blended cement (downstream scope 3).

THANK YOU

www.climatebonds.net

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