PRESENTED AT

23rd Annual Land Use Conference

April 25-26, 2019
Austin, TX

THE PLACE OF MUNICIPAL GREEN BONDS IN LOW-CARBON FINANCIAL MARKETS

Gregory D. Miller

Author Contact Information:
Gregory D. Miller
Bickerstaff Heath Delgado Acosta LLP
Austin, TX

GMiller@bickerstaff.com
512-472-8021

THE PLACE OF MUNICIPAL GREEN BONDS IN LOW-CARBON FINANCIAL MARKETS[1]

Gregory D. Miller[2]

I. INTRODUCTION

If you have not yet been requested to comment on the use of green bonds for financing a particular project of your client, it is likely that sometime soon, you will be. The purpose of this paper, then, is to offer a definition of green bonds that will be useful for local-government attorneys in responding to such queries, and also to provide a few general suggestions as to what may be considered to be uniquely material to any green bond offering documents. This paper begins with a look at the role that green bonds serve within the developing low-carbon financial markets established in response to certain climate-related goals as articulated in the Paris Agreement on climate. Following the discussion of green bonds from this perspective, it is suggested that the value of using green bonds for the local government issuer is that green bonds can further the positive effects of the environmentally-friendly project that is funded by the bonds in way that typical bonds cannot.

Green bond investors are motivated by the potential environmental benefits of the funded projects as well as by the purely economic aspects of the bond transaction. As such, an issuer should carefully consider whether there is any special or unique information that may be material, for disclosure purposes, to a green bond offering document that would not be material to a typical offering. This paper concludes by suggesting that there may be a trend towards the inclusion of information laid out in what are known as the Green Bond Principles and in the Climate Bonds Initiative standards in green bond offering documents.

There is much that can be said about the developing green bond market and about the unique disclosure issues that relate to green bonds. This paper is intended as an introduction to these topics and covers them only in a general manner. I hope that the references provided herein, if not

[1] Prepared for the Land Use Conference, UT CLE (2019).

[2] Associate, Bickerstaff Heath Delgado Acosta LLP, Austin, Texas.

the content of this paper, are useful for anyone who wishes to learn more about green bonds and climate-related finance.

II. GREEN BONDS' PLACE IN LOW-CARBON FINANCIAL MARKETS

The Paris Agreement approved in 2015 demonstrated a global commitment to keeping the world on a path in which anthropogenic global warming will remain below 2°C from pre-industrial levels (A course by which global warming is kept below 2°C is commonly referred to as a "2°C pathway." That shorthand is adopted in this paper.) Recognizing the need to rapidly expand investment in low-carbon and climate resilient projects and technologies, an investor group representing $11.2 trillion in managed assets, at the conclusion of the COP 21 where the Paris Agreement was negotiated, pledged to "work, through bodies like the Climate Bonds Initiative, with governments, development institutions, industry, cities, commercial banks, NGOs and others, to grow a large and robust market that makes a real contribution to addressing climate change."[3] As discussed in the following sections, therefore, green bonds are properly viewed as an integral part of the mobilization of finance to achieving a 2° pathway.

A. Emergence of a Climate-Aligned Bond Market

In agreeing to the Paris Agreement of 2015, virtually every nation committed for the first time to taking significant efforts to substantially limit anthropogenic global warming caused by the emission of greenhouse gasses and to establish mechanisms for assisting developing nations in their efforts in the global undertaking. The goals of the nations in joining the Agreement are stated in Article 2 as:

> a) Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change;
>
> (b) Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that does not threaten food production;
>
> (c) Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.[4]

---

[3] INVESTORS REPRESENTING US$11.2 TRILLION, THE PARIS GREEN BONDS STATEMENT (2015).
[4] Conference of the Parties, Adoption of the Paris Agreement, Dec. 12, 2015, U.N. Doc. FCCC/CP/2015/L.9/Rev/1 Art. 2 (Dec. 12, 2015).