



Green finance shapes up Setting standards for sustainable bonds

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The lack of a fully developed market for green investments is a major obstacle to the expansion of sustainable finance initiatives. Only an environment that encompasses common standards, incentives and safeguards will encourage investors to widely grasp green opportunities.

Exchanges – institutions committed to ensuring transparency, offering disclosure and comparability solutions – are in a position to support the transition to greener and more inclusive economies. They have the ability to steer the reporting behaviour of listed entities and promote disclosure of in-depth information about the issued instruments. By focusing on innovation when it comes to products, services, tools, and listing and trading rules, exchanges can help support the development of sustainable finance.

Today, more than ever, exchanges play a crucial role in supporting the growth of the green bond market. They do this by bringing together green investors and issuers. In this spirit, in September 2016 the Luxembourg Stock Exchange (LuxSE) introduced the Luxembourg Green Exchange (LGX), the world's first platform displaying only securities that raise proceeds for projects fully aligned with international green objectives.

LuxSE was already home to more than half the world's listed labelled green bonds – those with proceeds earmarked for climate or environmental projects. Through the creation of LGX, it established the first dedicated service on an exchange that links investors' need for increased transparency with issuers' commitment to quality of reporting. The goal is to channel more funds to the green bond market.

LGX is the first platform that makes industry best practices for green securities mandatory, in particular the International Capital Market Association's Green Bond Principles and the Climate Bond Initiative's standards. To be displayed on LGX an issuer must provide at least one form of a robust external review. A second admission criterion is the commitment to reporting back to investors. These requirements are important as information about the allocation of proceeds is vital to investors.

Nine months after its launch, LGX is the world leader in green bonds listings. The 109 instruments issued by 26 entities and denominated in 18 currencies represent a combined value of €51bn. The world's first sovereign green bond, issued by the Republic of Poland, joined LGX in late 2016. When asked about the selection criteria, Poland's ministry of finance explained in a written statement, 'The implementation of the Green Exchange is proof of an open-minded approach towards the needs of financial markets.' LGX offers issuers the opportunity to raise awareness about their green projects and promote their climate and corporate social responsibility commitments. Investors benefit from free and unrestricted access to all available information relating to a security displayed on LGX. These include the framework, external reviews, second opinions, certifications, rating reports, use of proceeds reports, impact reporting and project information. This allows for granular due diligence.

Prior to the LGX launch, consultations took place with investors, with public and private issuers and with intermediaries such as rating agencies. The stock exchange also held discussions that gave rise to the LGX eligibility criteria, the most advanced yet in the financial market. LuxSE is a member of the UN Sustainable Stock Exchange Initiative and is implementing sustainability into its governance code.

In order to boost sustainable development and limit climate change, as world leaders agreed during the 2015 Paris Climate Change Conference, the financing of green projects has to move from billions to trillions of dollars annually. Such needs can be met only when projects get access to financing through capital markets. LuxSE spent a lot of time on standards and transparency, and 2017 should be the year it sees acceleration in the volume of funds raised across markets, both domestically and internationally.

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