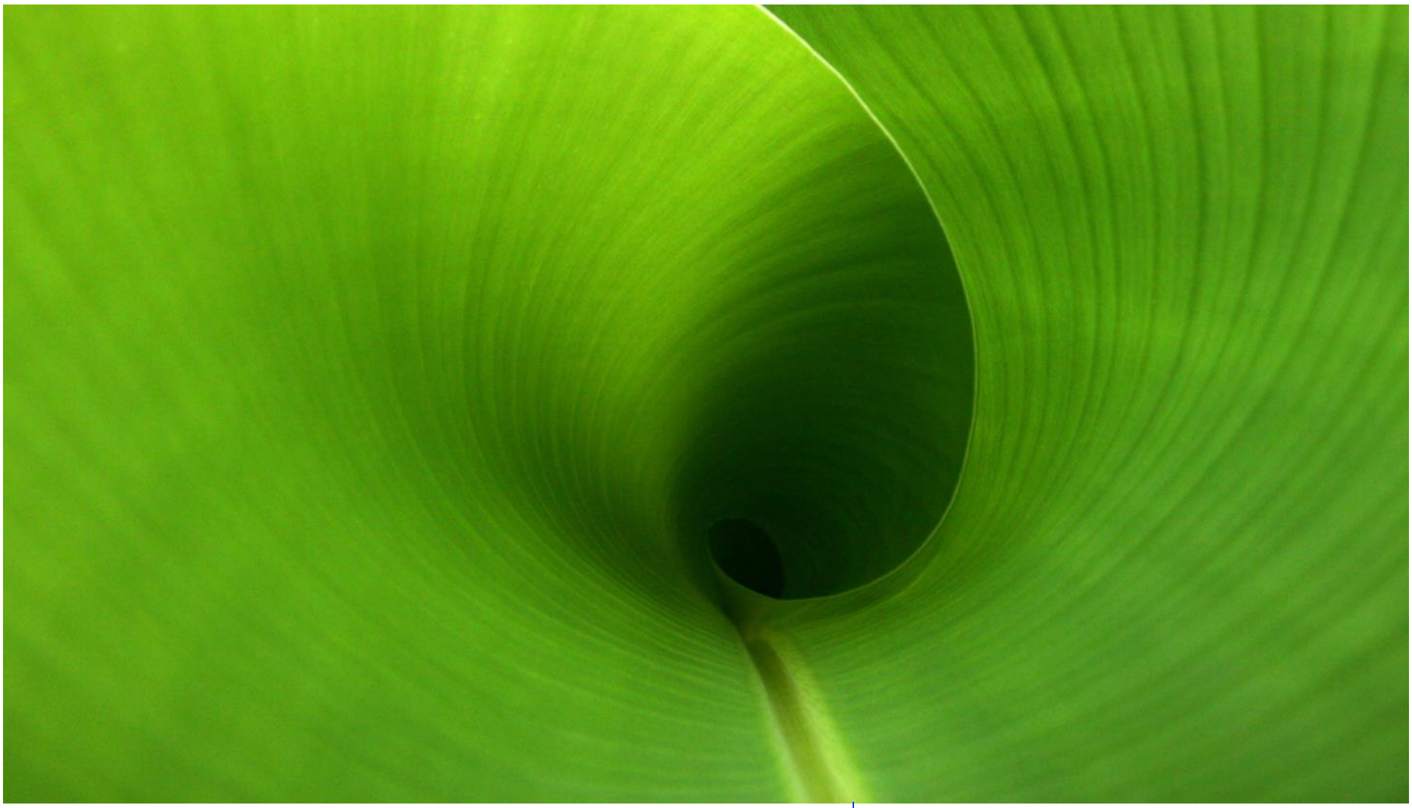

**Index Insights |** Sustainable Investment – Green Bonds

# Benchmarking the green bond market

## Adding impact to your fixed income strategy

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# Overview

The transition to a sustainable global economy requires scaling up the financing of projects that deliver positive outcomes for the environment and society. It is estimated, for example, that US$5 trillion to US$7 trillion is required every year between now and 2030 to achieve the Sustainable Development Goals (SDGs).[1]

The bond market, through green, social, sustainability bonds and sustainability-linked bonds, can play a critical role in attracting and directing private capital to finance improved social and environmental outcomes. These 'impact' bonds have greater transparency in their use of proceeds and project impacts compared to traditional bonds.

Accounting for over 70%, the green bond market is the largest and most well-established of broader impact bond market. In 2020, the cumulative issuance of green bonds, the proceeds of which are used to finance general climate or environmental projects such as renewable energy, low carbon transport and water management, passed US$1 trillion. In this paper we present:

– an update on the growth in the impact and green bond markets;

– an outline of the evolving standards for defining green bonds and their role in reducing the risks of greenwashing;

– the importance of green bond indexes in terms of measuring performance of the green bond market and facilitating the development of products to accelerate investment into the green economy.

This paper also introduces the FTSE Green Impact Bond Series, which combines FTSE Russell's index construction expertise with data expertise from across the broader LSEG Group, to enable global debt investors to participate in this rapidly growing market and generate a positive environmental impact.

[1] UNCTAD, World Investment Report 2014.

# Contents

# Introduction

## What is an impact bond?

Impact bonds differ from traditional bonds by focusing on the use of proceeds, and the environmental and social outcomes resulting from the use of proceeds. Specifically, impact bonds use private funding from investors for socially and environmentally aligned projects, assets and activities (hereafter referred to as projects) that will deliver positive social and environmental impacts alongside financial returns.

Types of impact bonds include green, social, sustainability and sustainability-linked bonds.

The label given to a bond is determined by whether the proceed will be used to finance environmental, social or sustainability (i.e., environmental and social) aligned projects. The use of proceeds can refer to:

– broad use, for example green bonds, which cover a broad range of climate and environment aligned projects, or

– specific use, for example water bonds, which only cover projects specifically related to water.

Unlike other impact bonds, the proceed from Sustainability-Linked bonds can be used for general projects, but the return (coupon and/or redemption value) is usually linked to predetermined sustainability outcomes to be achieved by the issuer.

The different categories of impact bonds are presented below.

| **Impact bonds** | | | | |
|---|---|---|---|---|
| **Category** | **Green** | **Social** | **Sustainability** | **Sustainability-linked** |
| **Guidelines** | Climate Bonds Standard (CBS)<br>Green Bond Principles (GBP) | Social Bond Principles (SBP) | Sustainability Bond Guidelines (SBG) | Sustainability-Linked Bond Principles (SLBP) |
| **General use of proceeds** | Proceeds are intended for general climate or other environmental projects delivering positive environmental impacts, such as renewable energy and low carbon transport. | Proceeds are intended for general social projects delivering positive social impacts such as food security, education and affordable housing. | Proceeds are intended for general sustainability projects delivering both positive environmental and social impacts. | Proceeds are intended for general projects with quantitative targets at issuer level to deliver both positive environmental and social impacts. |
| **Specific use of proceeds** | Proceeds are intended for projects focused on a specific area of climate or the environment delivering positive impacts related to this area, e.g.:<br>Water bonds<br>Blue bonds<br>Forest bonds | Proceeds are intended for projects focused on a specific segment of society and delivering positive impacts related to this specific segment, e.g.:<br>Vaccine bond<br>Equality bond | Proceeds are intended for projects focused on a specific segment across society and the environment delivering positive impacts related to this specific segment, e.g., Transition bond | Not applicable |

Impact bonds provide investors with the opportunity to allocate capital to environmental, social or sustainability solutions in the bond market. Compared to traditional bonds, impact bonds have a greater transparency in their use of proceeds and the associated environmental and social impacts, and provide a vehicle for investors who are looking for investments delivering positive impact.

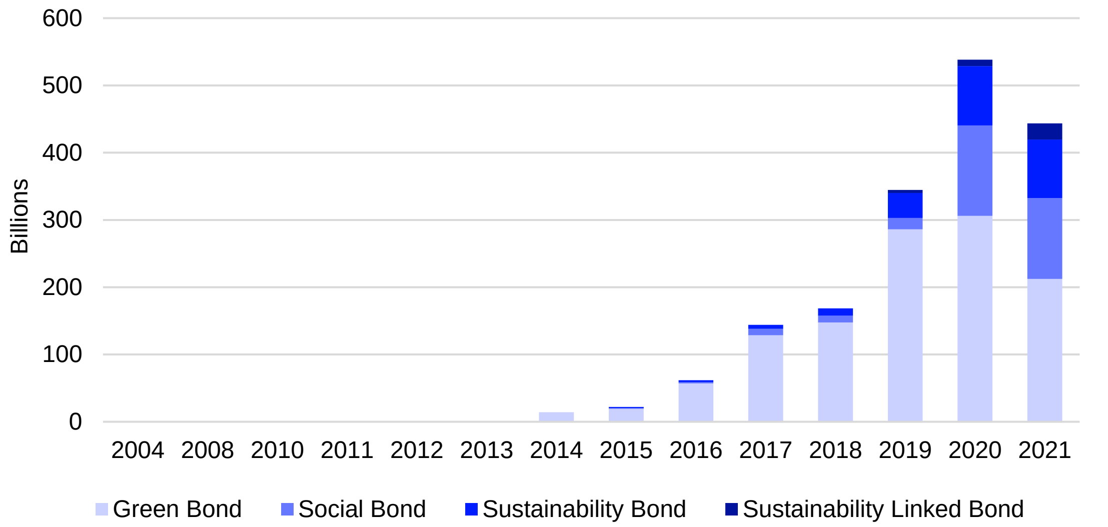
More granular labels that link the use of proceeds to specific environmental or social projects, such as water bonds and transition bonds, create additional flexibility that enables investors to align their investments with their broader sustainability agenda.

# Growth in the impact bond market

Green bonds are the oldest, most well-known category of impact bonds. As such, green bonds have dominated the impact bond market in terms of total issuance, year-on-year issuance and rate of growth. However, this changed during 2020, largely in response to the Covid-19 pandemic, with the rate of growth of social bond issuance increasing significantly and outstripping that of green bonds.

In 2020, the broader impact bond market grew over 50% with approximately US$530 billion of impact bonds being issued. While still making up the largest market share with over US$300 billion of bonds issued, the green bond market has grown more modestly since. At the same time, issuance for social and sustainability bonds has grown significantly. The social bond issuance surged to new heights reaching US$134 billion, up from just US$17 billion in 2019. Sustainability bond volumes also grew strongly, with issuance doubling to US$88 billion.[2]

**Impact Bond Issuance**




* Reference: LSEG Data & Analytics, June 2021.

# Introducing impact bond indexes

The significant growth in the impact bond market opens up opportunities for the development of impact bond indexes. FTSE Russell is well positioned to take advantage of this opportunity by bringing together its data and index construction expertise from across the broader LSEG Group to develop a series of impact bond indexes.

This impact bond index series will be the first product suite in the FTSE index family to facilitate and accelerate investment via the bond market into projects that will deliver positive environmental and social impacts. The impact bond indexes will include indexes from the range of impact bonds across global markets.

As the green bond market is the largest and most well established – accounting for over 70% of the broader impact bond market – FTSE Russell will enter the market with a green impact bond index. The next sections of this paper focus specifically on green bonds.

[2] LSEG Data & Analytics. 2020.

# Focus on green bonds

## What is a green bond?

Green bonds refer to bonds whose proceeds will be used to finance general climate or environmental projects such as renewable energy, low carbon transport and water management.

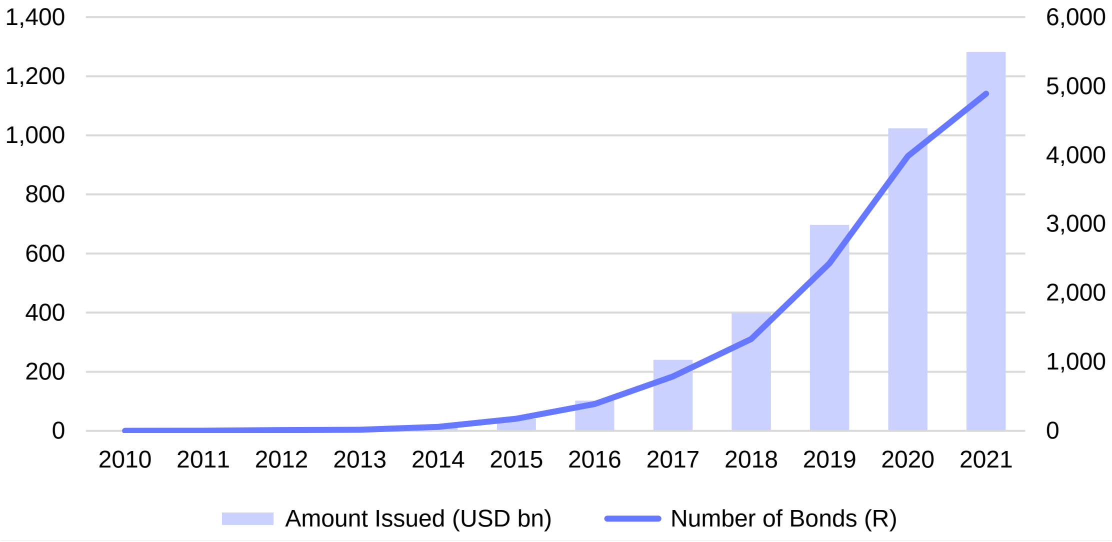
The history of the green bond market goes back to 2008, when the World Bank issued the world's first green bonds, driven by a group of Swedish pension funds, which wanted to invest in projects that helped the climate.[3] Since then, and even more so following the establishment of the Paris Agreement in 2015, investors have come to increasingly understand the challenges from climate change, the capital required to address these challenges, and the need for investment solutions.

The world is also facing wider environmental issues, such as air and water pollution and biodiversity loss as a result of rapid economic growth, urbanization, and technology development. The New Climate Economy project under the Global Commission on the Economy and Climate has estimated that, by 2030, an investment of US$90 trillion is needed to build sustainable infrastructure with clean energy systems, smart urban development and resource efficient industrials, etc.[4] The green bond market has the potential to link investors with projects that support the environment and helps fill some of the investment gap.

## Growth in the green bond market

Despite the slowdown in 2020, the green bond market is growing exponentially. The average annual growth rate of the issuance is approximately 95%.[5] The cumulative total of green bond issuance has passed US$1 trillion since market inception in 2007.

**Green Bond Issuance Hit 1 Trillion in 2020**




[3] https://www.worldbank.org/en/news/immersive-story/2019/03/18/10-years-of-green-bonds-creating-the-blueprint-for-sustainability-across-capital-markets.

[4] The New Climate Economy, 2018. *Unlocking the Inclusive Growth Story of the 21st Century.* https://newclimateeconomy.report/2018/.

[5] https://www.climatebonds.net/2020/12/1trillion-mark-reached-global-cumulative-green-issuance-climate-bonds-data-intelligence.

As of June 2021, the key features of the green bond market, when measured by the outstanding issue amount (which is the issue amount less matured bonds, i.e., amount already returned to investors), include:

**Issuance country:** Green bond issuance is dominated by Europe, which accounts for around 45% of the market. The green bond market is also highly correlated with a country's development stage, with developed countries issuing over 70% of all green bonds.

**Issuer type:** Just under two-thirds of the green bond market is issued by corporates, with the finance sector responsible for a quarter of total market. 36% of the green bond market is issued by the government-related sector, with around 20% issued by supranationals and agencies, and 10% issued by sovereigns.

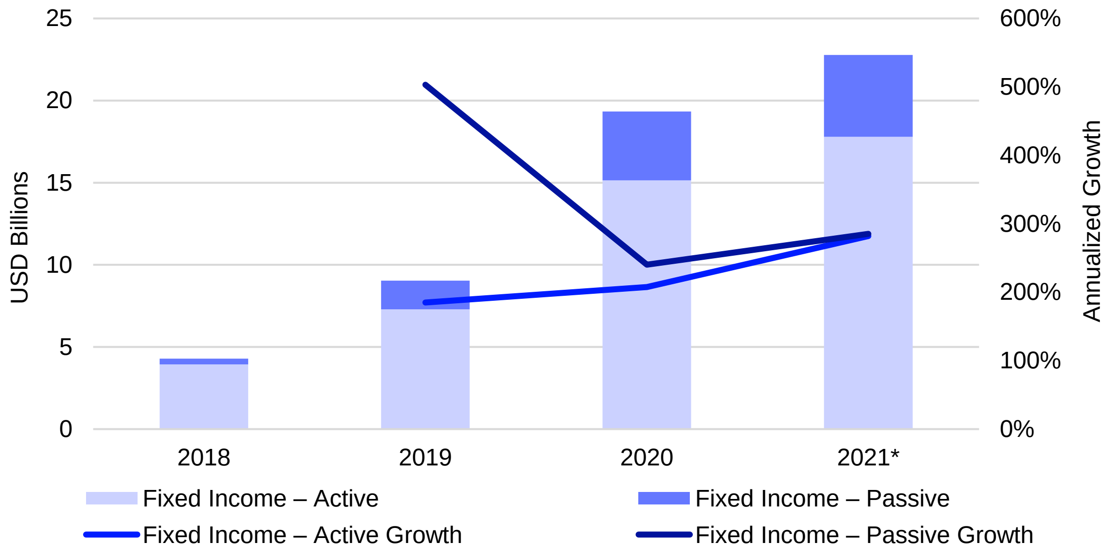
| Issuer type | Number of issues | Outstanding issue amount (%) |
|---|---:|---:|
| **Corporate** | **2,775** | **61.14%** |
| Finance | 1,079 | 25.45% |
| Industrial | 991 | 19.29% |
| Utility | 705 | 16.40% |
| **Government Related** | **758** | **36.22%** |
| Supranational and Agency | 467 | 18.79% |
| Sovereign | 38 | 10.80% |
| Regional Government | 160 | 3.90% |
| Sovereign Sponsored | 93 | 2.73% |
| **Collateralized** | **53** | **2.64%** |

* Reference: LSEG Data & Analytics, June 2021.

On the other side of the equation, there has been significant demand for green bonds from global investors. Sovereign wealth funds and pension funds, in particular, are investing heavily in green bonds. For example, in Europe, Denmark's Sampension has already invested DKK 1 billion in green bonds, while PFA Demark has invested DKK 1.3 billion in green bonds issued by the Dutch government. In Asia, China recently opened the Southbound connect, which is set to attract Chinese pensions to access the global green bond market. In addition, GPIF has established initiatives to promote green bonds in Japan market[RD1].

Across the market more broadly, there has been increased investment in green bond funds. The chart below shows a 20% increase in investment in green bond funds in the first five months of this year, compared to the whole of last year. There has also been growth in investment in exchange-traded green bond products, including funds and ETFs.

**Green Bond Fund**




Source: Morningstar, as of May 2021 and growth rate is annualized.

# Standards in the green bond market

Since their launch, standards for green bonds have developed and evolved. More recently, regulation has begun to emerge, including the proposed EU Green Bond Standard and Guidelines and rules in China, ASEAN, Japan, India and other countries and regions.

In 2009, the Climate Bonds Initiative (CBI), an independent non-for-profit body, was established to provide standards, certifications, data analysis, and policy recommendations in the green bond market. In 2010, the CBI launched the Climate Bond Standard (CBS) and Certification Scheme to provide assurance on environmental integrity of green bonds to help investors identify and assess the environmental credentials of green bonds. The implementation and operation of CBS is overseen by the Climate Bonds Standard Board, with members from non-for-profit asset owners, representing US$51 trillion of assets under management, investor associations and environmental organizations.[6]

In 2014, the International Capital Market Association (ICMA) established the Green Bond Principles (GBP) as a voluntary framework for green bond issuance. The GBP was formed to provide guidelines and promote transparency in the green bond market, supporting the market integrity and raising financial markets' awareness of environmental impacts. The GBP is developed with contributions from ICMA members and observers, coordinated by an Executive Committee.[7]

## Harmonized requirements

Under both the CBI CBS and the ICMA GBP, a green bond issuer should meet four-pillar requirements. The CBS has more detailed processes and criteria under each pillar, relative to the GBP.

In general, these four-pillar requirements include:

1. **Use of proceeds**: the proceeds should only be used for eligible green projects. GBP lists 10 categories of eligible projects. CBS covers seven sectors and requires issuers to meet specific sector eligibility criteria such as carbon emissions, and climate resilience.

[6] https://www.climatebonds.net/standard/governance/board.
[7] https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf.

| CBI Climate Bonds Taxonomy & sector criteria | ICMA GBP |
|---|---|
| Energy – Solar, Wind, Geothermal, Bioenergy | Renewable energy<br>Energy efficiency |
| Waste (and pollution control) | Pollution prevention and control |
| Land use & marine resources – forestry, agriculture | Environmentally sustainable management of living natural resources and land use<br>Terrestrial and aquatic biodiversity conservation |
| Transport & shipping | Clean transportation |
| Water | Sustainable water and wastewater management |
| * Climate change adaptation and resilience measures are eligible and will be integrated in the Sector Criteria.[8] | Climate change adaptation |
| Industry (energy efficient products & processes) | Eco-efficient and/or circular economy adapted products, production technologies and processes |
| Buildings (commercial, residential & energy efficiency) | Green building |

2. **Process for evaluation and selection of projects:** the process should be documented with information on environmental objectives, the issuer's sustainability strategy and how to determine the eligibility of the underlying projects, etc.
3. **Management of proceeds:** the proceeds should be ringfenced or earmarked to eligible projects. Any unallocated proceeds should be properly managed.
4. **Reporting:** there should be disclosure and annual updates related to the three requirements above. Post-issuance reporting is key to ensuring ongoing adherence to the CBS and the GBP. The CBS requires issuers to report at least annually on the use of proceeds and environmental outcomes. CBI tracks post-issuance reports for all the green bonds in their database. GBP also requires issuers to report annually on the use of proceeds.

## Certification

An issuer can seek certification that their green bond adheres to the CBS. Under the CBS certification scheme, issuers must meet the four-pillar requirements outlined above. They must also engage a verifier, approved by the CBS Board, who will provide an assurance report that the bond meets the requirements. The CBS Board provides the final confirmation of all certifications. Following confirmation by the CBS Board, the green bond becomes a CBS Certified Green Bond.

The CBS allows certification of a bond prior to its issuance. After the bond has been issued and allocation of the bond proceeds has begun, the issuer must confirm the certification by obtaining another assurance (the "Post-Issuance") report and providing it to the CBS Board. To maintain the certification, all issuers are required to report annually for the tenor of the bond.

While there is no certification process as part of the GBP, the harmonized requirements of the two standards mean that any CBS Certified Green Bond would also adhere to the requirements of the GBP. However, not all bonds that adhere to the requirements of the GBP would meet the CBS.

## Second opinions

Where an issuer chooses not to certify the bond, it may instead seek an external review and receive a "second opinion" on the extent of its adherence to either the CBS or the GBP. Providers of second opinions do not need to be approved by CBI or ICMA. They generally have their own proprietary methodology for assessing adherence to the standards, and use their own terminology to describe the assessment, e.g., assured, verified, and/or for level of adherence, e.g., high, medium, low/dark green, light green, brown, etc.

While a second opinion is not as robust as a certification, it does provide the market with some further assurance that proceeds are being allocated to a climate or environmentally aligned project.

[8] Climate Bonds Initiative Green Bond Database Methodology page 3.

# CBI Green Bond Database

The CBI maintains a database of green bonds. To determine if a green bond is eligible for inclusion in the Green Bond Database, the CBI use a three-step screening process:

i. Identifying all bonds that have been self-labelled as “green” by the issuer in a public document, and that have sufficient, publicly available information to determine if the financed projects are “green”.

ii. Reviewing sectors and green credentials to determine if the proceeds will finance eligible projects in line with the Green Definitions (which is adapted from the Climate Bonds Taxonomy and Sector Criteria).

iii. Evaluating the use of proceeds threshold to ensure all net proceeds are allocated to eligible green projects.

The screening process results in three categories of green bonds:

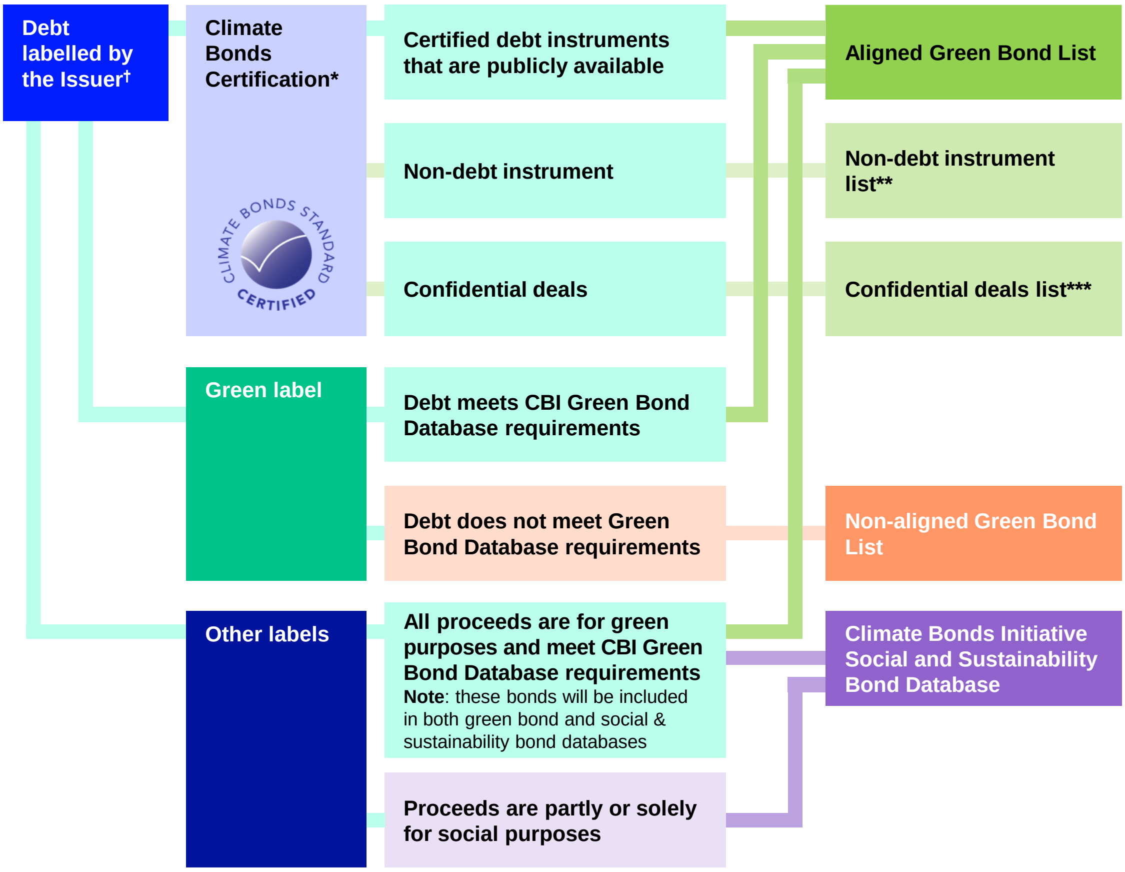
**CBS Certified Green Bonds:** These green bonds are certified under the CBS as described above. These CBS Certified Green Bonds are seen as the highest standard of green bonds.

**CBI Aligned Green Bonds:** These green bonds have not been certified but have been deemed by CBI to meet the screening requirements. CBI Aligned Green Bond are the next highest standard of green bonds.

**CBI Non-Aligned Green Bonds**: These CBI Non-Aligned Green Bonds have been deemed by CBI to not meet the screening requirements.

As illustrated below, the first two categories of bonds fall under the Aligned Green Bond List, while the third category falls under the Non-Aligned Green Bond List.

**Climate Bonds Initiative Green Bond Database screening process**




Source: Climate Bonds Green Bond Database Methodology.

The large majority of green bonds fall into the second category, CBI Aligned Green Bonds. For example, in the first half of 2021, of the total green bond issuance; 84% were CBI Aligned Green Bonds, 12% were CBS Certified Bonds, and 4% were Non-Aligned Green Bonds, i.e., self-labelled green bonds not aligned with CBI screening requirements.[9]

If a green bond is included on the Aligned Green Bond List but the issuer cannot fulfil any of the certification or screening requirements at a later date or the proceeds are eventually applied to "non-green" projects, it may be moved to the Non-Aligned Green Bond List. Conversely, a green bond on the Non-Aligned Green Bond List may be re-classified and moved to the Aligned Green Bond List if satisfactory information is provided or obtained at a later date which confirms it meets the screening requirements.

# Market perception of green bonds

While the market for green bonds is becoming more standardized and institutionalized, there are still concerns from some investors about whether green bonds are delivering their stated environmental benefits, or whether they are merely "greenwashing."

"Greenwashing" in the green bond market primarily refers to the risk that the bond is labelled as 'green', when in actual fact some, or all, of the proceeds are not used for the specified green projects that deliver positive environmental outcomes. Instead, they are used for "non-green" projects that deliver little positive impact, or even result in environmental harm, or that where the proceeds are used for the specified green projects, the associated environmental benefits are not delivered.

**Examples of investor's concerns about "greenwashing"**

| Greenwashing in finance: Europe's push to police ESG investing | Insight Investment assessed more than 70 green bonds and found that 15% failed |
|---|---|
| *Yet despite the recent fanfare about sustainable investing, Björksten says all is not what it seems. "Greenwashing is a real problem," he warns—referring to companies' promotion of environmental concerns as an advertising gimmick. –Financial Times* | In 2019, Insight Investment assessed more than 70 green bonds and found that 15% failed minimum criteria:<br>– ESG performance of issuer<br>– Green bond framework<br>– Quantitative impact (= Reporting) |
| Source: https://www.ft.com/content/74888921-368d-42e1-91cd-c3c8ce64a05e. | Source: https://expertinvestoreurope.com/worst-examples-of-greenwashing-are-in-green-bonds. |

There are two key elements that reduce the risk of greenwashing and improve market integrity and investor confidence as to the use of proceeds and the positive environmental impact.

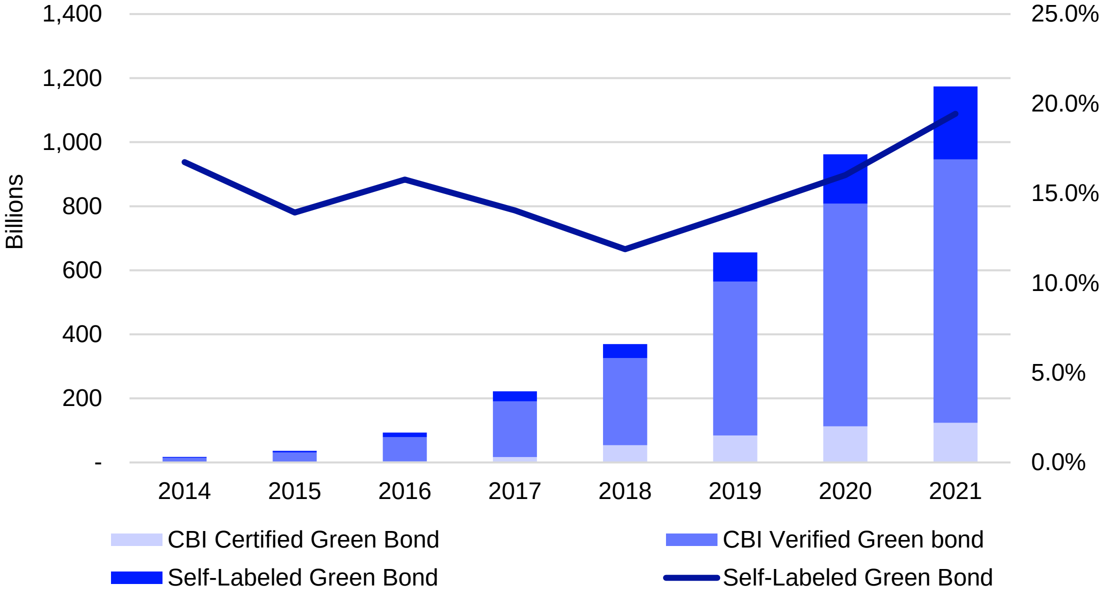
The first is the level of confidence that the green bond adheres to the CBS or the GBP. CBS Certified Green Bonds provide the highest level of confidence to the market, followed by CBI Aligned Green Bonds. Both these categories of green bonds are included on the CBI Green Bond Database's Aligned Green Bond List.

As we can see from the graph below, just over 80% of green bonds are CBS Certified or CBI Aligned Green Bonds. However, this still leaves almost 20% or almost US$230 billion of green bonds that are 'self-labelled' only. As outlined previously, this means that these bonds do not disclose sufficient information, or are using some, or all, of the proceeds to finance projects that are not aligned with the Green Definitions.

[9] https://www.climatebonds.net/ 30 June 2021.

**Categories of green bonds based on market size (by par amount)**

**Green Bond Issuance (Cumulative)**




Source: LSEG Data & Analytics, June 2021.

The second element that helps reduce the risk of greenwashing is the ongoing reporting. This element gives the market visibility as to whether the issuer has continued to fulfil the four-pillar requirements, including whether the proceeds are actually being used for aligned green projects and they are delivering the associated environmental benefits.

As already mentioned, if the issuer does not satisfy these requirements, the bond may be removed from the CBI Aligned Green Bond List or the Green Bond Database itself.

# Green bond indexes

## What is a green bond index?

An index is a basket of securities that represents a particular market or a segment of the market. In the case of a green bond index, it is a basket of green bonds that represents the green bond market. Green bond indexes first appeared in 2014, when a number of providers launched their version of a green bond index.

Each green bond index has a different methodology for selecting which green bonds are included in the index. As such, each index will be different; even those representing the same market. There is no right or wrong methodology, there is just the methodology that more closely aligns to a particular investor's view of the market.

The methodology will specify a number of factors that will determine which green bonds will be included and excluded from the index. Traditional factors used to determine the composition of a bond index include country, currency, credit rating quality, issuance size, maturity and coupon type. For a green bond index, the most pertinent aspect of the methodology is the definition of "green" that is used.

## What is a green bond index used for?

Green bond indexes have several important uses as outlined below:

### Measuring performance

A green bond index is designed to measure the performance of a basket of green bonds across security types and geographies, using a standardized methodology and metrics.

A green bond index may be used to compare performance of the green bond market against the performance of the broader bond market, as represented by a traditional bond index. For example, when compared to traditional indexes, green bond indexes have generally performed better over the past four years[10].

Further, a green bond index may be used by asset owners, or asset managers, as a benchmark against which to measure the performance of their investments in green bonds. Measuring performance against a benchmark is especially important where active strategies are employed and asset managers are paid performance fees.

### Developing financial products

A green bond index can be used as the basis for the development of index-tracking financial products, including passive green bonds funds, and passive exchange traded products such as funds and ETFs.

These financial products facilitate investment in the green bond market by both institutional and retail investors. Rather than actively investing in green bond issuance, investors can access the broader green bond market through index-based products. There has been significant interest from retail investors in exchange traded green bond products, as evidenced by their growth in terms of both number and size of assets under management.

### Liquidity

Green bond indexes, therefore, also support the green bond market by fostering liquidity.

[10] Green bond indices outperform regular bonds – ESG Clarity.

# FTSE Russell’s Green Impact Bond Index

The FTSE Green Impact Bond Index Series provides a comprehensive measure of the global green bond market across various asset classes and credit sectors. The series measures the performance of both investment-grade and high-yield multi-currency green bonds issued by government, government-sponsored, supranational, collateralized, and corporations.

The FTSE Green Impact Bond Index Series comprises green bonds that are included in the FTSE Broad Bond Index Series. A green bond is included only if it is a constituent of the CBI Green Bond Database, as a CBI Certified Green Bond or a CBI Aligned Green Bond.

The Index Series consists of the following:

– FTSE Global Green Impact Bond Index

– FTSE WorldBIG Green Impact Bond Index

– FTSE EuroBIG Green Impact Bond Index

– FTSE USBIG Green Impact Bond Index

| | WorldBIG Green Impact | EuroBIG Green Impact | USBIG Green Impact | Global Green Impact |
|---|---|---|---|---|
| **Base date** | Dec 31st, 2013 | | | |
| **Green criteria** | CBI Green Bond Database – CBI Aligned Green Bonds | | | |
| **Currency** | EUR, GBP, USD | EUR | USD | AUD, CHF, CNH, CNY, EUR, GBP, JPY, USD |
| **Quality** | Investment grade | Investment grade | Investment grade | Investment grade, High yield |
| | | | | No minimum S&P or Moody’s rating requirements, non-related bonds are included, defaulted bonds are excluded |
| **Amount Outstanding** | EUR 500 million<br>GBP 300 million<br>USD 500 million | EUR 500 million | USD 250 million | AUD 100 million<br>CHF 100 million<br>CNH 1 billion<br>CNY 1 billion<br>EUR 500 million<br>GBP 200 million<br>JPY 20 billion<br>USD 250 million |
| **Minimum maturity** | Standard index: at least one year to maturity | | | |
| **Weighting** | Market Value weighted | | | |
| **July 2021 Constituents** | 477 | 361 | 107 | 723 |
| **Composition** | WorldBIG | EuroBIG | USBIG | Broad Fixed Income indexes |

| Description | # of Issue | Par amount* | Market value* | Market weight (%) | YTM (%) | Effective duration |
|---|---|---|---|---|---|---|
| Global Green Impact | 723 | 632.65 | 661.4 | 100 | 0.9 | 8.32 |
| WorldBIG Green Impact | 477 | 527.02 | 551.48 | 83.38 | 0.5 | 9.06 |
| EuroBIG Green Impact | 361 | 430.81 | 451.35 | 68.24 | 0.27 | 9.56 |
| USBIG Green Impact | 107 | 82.02 | 86.02 | 13.01 | 1.63 | 7.71 |

* According to LSEG Data & Analytics, there are 2,913 CBS Certified and CBI Aligned Green Bonds with total par amount USD 1,000.21 billion
* Reference: FTSE, Data as of 30 June 2021, in USD billions.

# Delivering a market-leading Green Impact Bond Index

## A joined-up solution

The FTSE Green Impact Bond Indexes provide a joined-up solution, including FTSE Russell index construction, LSEG Data & Analytics evaluated pricing and reference data, and Yield Book analytics to support buy-side investment in fixed income. Market participants can use the same evaluated prices used in the FTSE Russell index calculations for their portfolio valuations to deliver more accurate performance reporting and minimize tracking error.

## Building on the strength of FTSE Russell indexes

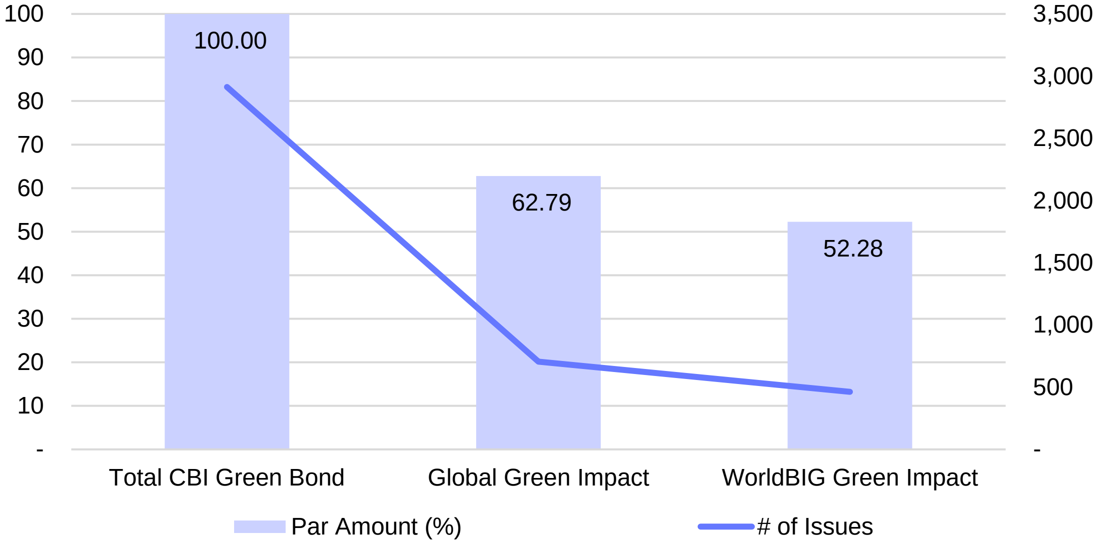
The FTSE Green Impact Bond Indexes will build on FTSE Russell's strong franchise of fixed income indexes. The FTSE Green Impact Bond Index will be based on various FTSE Fixed Income indexes, including the World Government Bond (WGBI) and WorldBIG indexes. These widely used benchmarks currently include debt from over 20 countries, denominated in a variety of currencies, and have more than 30 years of history available. FTSE Russell also has a comprehensive series of sustainable investment equity indexes. Combining these with the fixed income indexes gives FTSE Russell the ability to offer a multi-asset sustainable solution. Moreover, a dedicated professional research and product team can create any customized solutions, based on client demands.

## Selective but with representative market coverage

To be selected for the FTSE Green Impact Bond Indexes, a green bond issue must have a significant outstanding issue amount (based on the thresholds set in the underlying index methodology that differs, based on issuer type and currency for each index). This ensures only sizable and liquid green bonds are selected, and results in the Green Impact Bond Indexes delivering improved liquidity, compared to the broader green bond market.

However, this improved liquidity does not come at the cost of the green bond market coverage. As illustrated in the chart below, while the FTSE Green Impact Bond Indexes only hold around 25% of eligible green bonds by number, the coverage based on market weight is still significant. This means the FTSE Green Impact Bond Indexes are still representative of the green bond market, and they are more suitable for passive fund managers due to the reduction in tracking error.

**Market Size vs. Number of Issues**




## Bringing together standards and metrics

LSEG Data & Analytics has been a long-term supporter of the CBI and has a deep understanding of, and expertise in, the green bond standards, and the classification and labelling of green bonds. In collaboration with the CBI, LSEG Data & Analytics has developed comprehensive data tables of CBS Certified Bonds, CBI Aligned Green Bonds and Non-Aligned Green Bonds. CBI provides access to its full historical green bond data set. LSEG Data & Analytics works with the CBI to validate the green bonds data and undertakes detailed categorization and tagging across a range of factors, such as use of proceeds. LSEG Data & Analytics' green bond data tables are featured on the CBI website.

## Credible and robust

FTSE Russell recognizes the need to create an index that only includes credible green bonds that actually finance green projects and deliver positive environmental or climate benefits. To ensure this, FTSE Russell only includes green bonds that are CBS Certified or CBI Aligned.

Importantly, the Green Bond Indexes have more than seven years of history. Furthermore, each index offers a comprehensive set of sub-indexes that have both hedged and unhedged index value, based in major currencies.

## Strong foundations on which to build further impact bond indexes

While green bonds are undoubtedly the most mature in the market, there is a burgeoning impact bond market waiting to be tapped.

The development efforts that sit behind the FTSE Green Impact Bond Indexes, including the robust and credible tagging of use of proceeds, validation of projects and assessment of ongoing issuer reporting, will be important with the introduction of other impact bond indexes.

However, to increase the issuance and the credibility of some of the newer types of bonds, there needs to be more standardization about how these bonds are to be defined. It is critical to have market guidance that reflects the views of an established authority on what constitutes a good transition-bond or sustainability-linked bond, for example.

This will help the growth of the impact bond market by facilitating the creation of well-defined new products with various kinds of use of proceeds.

# Conclusion

The impact bond market is growing exponentially. Green, social, sustainability and sustainability-linked bonds enable investors to allocate capital to projects that will deliver positive environmental and social outcomes. Given the maturity and strength of the green bond market, FTSE Russell is launching a series of green impact bond indexes to facilitate greater investment and scale up the financing of projects to deliver improved climate and environmental outcomes.

The FTSE Green Impact Bond Indexes will only include credible green bonds – specifically, CBS Certified Green Bonds and CBI Aligned Green Bonds – with sufficient outstanding issue amount, resulting in a robust index with broad market coverage and improved liquidity.

FTSE Russell has combined its experience in index construction with LSEG Data & Analytics' market-leading resources and tools to deliver the FTSE Green Impact Bond Indexes. Most notably, LSEG Data & Analytics, in consultation with the CBI, has developed a comprehensive and robust approach to validating and labelling bonds, including detailed tagging of use of proceeds, company sectors and operations.

This will allow FTSE Russell to not only produce a series of Green Impact Bond Indexes, but also support the burgeoning growth of other impact bonds markets by being able to readily deliver indexes across social, sustainability and sustainability-linked bond markets.

## ABOUT FTSE RUSSELL

FTSE Russell is a leading global provider of index and benchmark solutions, spanning diverse asset classes and investment objectives. As a trusted investment partner we help investors make better-informed investment decisions, manage risk, and seize opportunities.

Market participants look to us for our expertise in developing and managing global index solutions across asset classes. Asset owners, asset managers, ETF providers and investment banks choose FTSE Russell solutions to benchmark their investment performance and create investment funds, ETFs, structured products, and index-based derivatives. Our clients use our solutions for asset allocation, investment strategy analysis and risk management, and value us for our robust governance process and operational integrity.

For over 35 years we have been at the forefront of driving change for the investor, always innovating to shape the next generation of benchmarks and investment solutions that open up new opportunities for the global investment community.

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