

An aerial photograph of a circular pond surrounded by a dense, lush green forest. The pond is the central focus, with a small boat visible on its surface. The surrounding forest is thick and vibrant green, with some darker patches of trees. The overall scene is serene and natural.

Green Bonds

MTCM
— ASSETS & INVESTMENTS —

Green Bonds

Introduction

While there's still some debate about the criteria that a debt issuance has to meet in order to be considered 'green', **green bonds are bonds that earmark proceeds for climate or environmental projects** and have been labelled as 'green' by the issuer. It is important to note that financial characteristics of green bonds are identical to those of other plain vanilla bonds, with the following definitions being relevant:



Green Bonds are identical to regular bonds, with the added provision that their proceeds finance environmental / climate-friendly investments or projects.



There is yet no international consensus about how to define "green," though prominent efforts have been made, incl. the Green Bond Principles and the Climate Bonds Standards, among others.



Green Bonds are not homogenous and can be structured differently.



Green Bonds proceeds are generally appropriate for large-scale, low-risk, and long-term projects, a good match for many capital-intensive climate-friendly projects utilizing established technologies.

Green Bonds are bonds that earmark proceeds for climate or environmental projects

A number of independent certification programmes are currently available, with the Green Bonds Initiative (CBI) Standard being the most used and globally recognized. Certification has important implications, as green bonds can benefit from significant tax incentives (deductions and credits). The CBI standard contains rigorous scientific criteria which are consistent with the 2 degrees Celsius warming limit as detailed in the 2015 Paris Agreement. Certification under the Climate Bonds Standard is currently available for assets that are related to Solar Energy, Wind Energy, Geothermal Energy, Marine Renewable Energy, Water Infrastructure, Low Carbon Transport & Low Carbon Building.

While CBI’s standard provides a final certification “stamp”, which should not be considered as mandatory, the key assessments necessary to the issuance of green bonds are under the responsibility of the originator and ultimately of the so called Second Party Opinion (SPO) service providers. These independent, and CBI approved verifiers will review all relevant information and draft a report giving assurance that the Standard is met.

Certification process



Challenge

However, some key challenges remain that must be addressed in order to promote sustainable growth in the Green Bond sector. Perhaps the most important one is related to the access to such investments by the wider public, which typically can only participate in large funds that commingle different green investments scattered across the globe.

The most important challenge is to truly democratize the access to green investments strategies

This has a number of disadvantages that affect the attractiveness of investing in green assets. On the one hand, in large green bond issuances (typically carried out by large public or private entities) most (if not all) investors are effectively cut off from participating either by definition or in practice, due to the high tickets imposed by the issuers. This bans a large number of smaller and medium investors from taking part in such projects.

On the other hand, individuals can currently access this market by purchasing shares of an Exchange Traded Fund (ETF), which then in turn invests in green projects. This modality indeed does allow smaller players into the sector, but there is a major downside to this approach; these smaller contributions are bundled together to finance all sorts of green projects, which can be very diverse in nature and location. As a result, said investors don't always get to fully appreciate the impact of their investment and the specific benefits it has for the environment.

It could therefore be concluded that the challenge of truly democratizing access to green investments has yet to be tackled. Smaller and medium investors should be allowed to enter them with affordable tickets while maintaining the possibility of transferring their positions. Furthermore, if these players could somehow be more exposed to the impact of their investment, it should make the green bond market as a whole a lot more attractive to such individuals.



Key Advantages

Green Bond Issuers

Investors

Major reputational enhancement with positive repercussions throughout the entire business, as issuing green bonds signals commitment to sustainability.

1

Enhanced access to a wider range of investment opportunities that may benefit from higher returns, tax breaks and reputational advantages.

More specific product offering and ability to access retail client segments, allowing members of the community to participate in direct investments in local green and sustainable projects.

2

Higher transferability of positions which do not affect underlying projects and overall outcomes.

Opportunity to increase demand for green projects with a positive effect on the sustainable finance landscape, which so far has not been able to attract small scale, non-institutional investors.

3

Finance a low-carbon transition by proactively hedging against future climate risks and decrease of returns in non-green investments.

What solution does Cronus Group offer?

Cronus Group's aim is to offer a comprehensive solution to all of these issues. In order to do so, it has designed, in collaboration with industry experts, a structure that would allow for affordable entry tickets, while maintaining transferability of the position and allowing for specific, regional projects to be marketed to local investors. Moreover, it allows for investors to hold a green debt security while allowing for the project to be funded by debt, equity or a combination thereof.

This product is a variation of a typical Global Note Program (International Bond Issuance). The principle would be the same; a Securitization Vehicle would issue Notes to be purchased by investors. The proceeds of said issuance would then be used to fund the company that will be in charge of developing the underlying project. Under the Green Bond Solution, however, the issued Notes would be certified as green bonds.



A structure that would allow for affordable entry tickets, while maintaining transferability of the position and allowing for specific, regional projects to be marketed to local investors.

This would allow managers to offer investors significantly lower entry tickets, empowering small and medium players to contribute to the sustainability of the environment while accessing an asset class with attractive long-term returns. On the other hand, the investment manager would gain a new source of funding and profit from the positive coverage of pioneering the democratization of green bonds.

All of this would be achieved while maintaining transferability of positions, as the Notes are OTC purchasable securities that can be sold between investors without affecting the underlying project's capital. This allows managers to focus on what matters, successfully developing green projects.



Finally, perhaps the most relevant advantage of the Green Bond Solution is that it would allow small and medium managers to choose a specific project in a given region and then market this strategy to local and international investors. This would enable investors to see the impact of their contributions first-hand, fostering the popularity of green projects and therefore contributing to a greener planet.



About MTCM

MTCM Investment AG is a leading provider of advisory services for Alternative Investments. Our background in structuring and issuing of investment vehicles/products within the top Investment Banks and our solid know-how in the Alternative Assets and Derivatives Market build the core strengths in order to provide you with the most innovative Investment ideas and implementations.

A solid basis of trust, short communication channels and transparency will ensure to be your advisor of choice. We aim to be the best and most respected independent investment advising firm by providing outstanding client service. Our fundamental values consist in transparency, excellence, innovation and dedicated service for our partners and their needs.

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