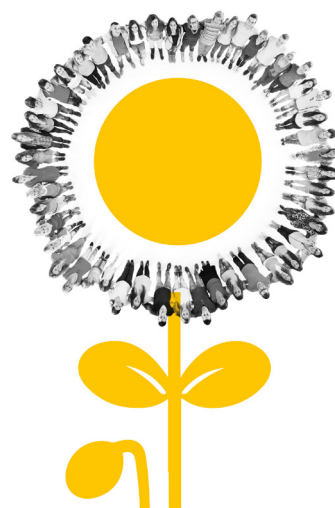


## A little help please

### Green Gilts – what the government can do for investors



When it comes to managing the risks and opportunities associated with climate change, the government is expecting a lot from pension scheme trustees. But there is something the government can do to help.

Trustees are being expected to do more and more when it comes to the management of climate change risk and opportunity. First, the government introduced requirements for trustees to describe their policies in this area. Next, it imposed further disclosure obligations relating to stewardship and engagement. Now (ahead of the 26th UN Climate Change Conference of the Parties in Glasgow this November), the government is imposing [detailed governance and reporting standards that implement the recommendations of the Task Force on Climate-related Financial Disclosures](#) (the TCFD having been created by the Financial Stability Board, an international body that monitors and makes recommendations about the global financial system).

Few would deny that the policy intent, stemming as it does from the legally binding treaty enshrined in the Paris Agreement (reached at COP 21 in December 2015), and the steady intensification of the legal requirements are well-meaning and built on consensus. And those who have followed these developments in the UK will have seen that the government's roadmap for the implementation of the TCFD's recommendations applies across the whole financial sector, not just to pension schemes. Nevertheless, it is fair to say that trust-based schemes are in the vanguard of this, due largely to the impetus applied by Guy Opperman and the DWP.

However, there is one area in which trustees can rightly expect another arm of government, the Treasury, to help them. This is in the way in which HMT will go about implementing the government's declared intention to issue so-called Green Gilts – an opportunity about which the Investment Association has recently published a position paper. The IA's 250 members together manage £8.5 trillion of assets for pension schemes and insurance

companies and the UK's investment management industry is the largest in Europe and the second largest in the world. The views of the IA's members therefore carry considerable heft.

The IA's paper sets out its position on the 10 features which its members believe are desirable for Green Gilts to be viable for investment managers while also enabling the government to finance the environmental and social needs of the UK. The features can be grouped together as follows.

#### Purpose and deployment

**Use of proceeds** – governments currently have unfettered discretion as to how they use the proceeds of conventional gilt issuance, but Green Gilts should be different. The IA recommends that, for Green Gilts to be attractive to investors, the gilt instruments should explicitly designate how proceeds will be used and there should be a change to legislation to segregate the proceeds of issuance in the national accounts.

**Forward-looking** – market practice tends to be for gilts to be issued on a look-back basis, but the IA suggests Green Gilts should be forward-looking through providing a path for financing future projects.

**Social impact** – the IA supports proceeds being used to fund environmental projects with social co-benefits but says there should be government guidance on exactly how social impact motives will be incorporated.

**Recognised standards** – the IA suggests the incorporation of certain widely-recognised standards to maximise investor take-up. For this purpose, the IA invites the government to consider the "Green Bond Principles" developed by the International Capital Market Association,





the “Impact Management Norms” developed by the Impact Management Project, the EU’s Taxonomy for Sustainable Activities, the UN’s Sustainable Development Goals, and the UK’s “Nationally Determined Contributions” under Article 4 of the Paris Agreement itself.

### Economic characteristics

**Medium- to long-dated** – the IA says that investors will expect the maturity of Green Gilts to align with the maturity of the project(s) they are financing. Typically this will mean medium- to long-term horizons given the expectation that Green Gilts will finance infrastructure projects.

**Equivalent features to conventional gilts** – these include being issued in fixed income and inflation-linked form, being eligible for use as collateral under derivative contracts and as deliverable bonds under long gilt future contracts, and being suitable for benchmarking in UK gilt indices.

### Oversight and accountability

**Use of an audit committee** – the IA recommends the creation of an audit committee which would include market representatives and would scrutinise the government’s sustainability objectives, selection and exclusion of eligible projects, and conduct of environmental and social risk due diligence.

**Mandatory verification** – the IA says this should be in line with market standards such as the Climate Bond Standard and the proposed EU Green Bond Standard.

**Reporting** – the IA says the government should report annually on the allocation and impact of Green Gilt proceeds, evaluating performance against qualitative and quantitative KPIs. It says this reporting should continue until all proceeds have been allocated or the Green Gilt matures.

**Continuous engagement** – on top of these measures, the IA says there should be continuous engagement between government and the investment management community on the progress of projects over the life of Green Gilts.

So, as trustees work with their advisers, asset managers and data providers to implement measures that manage the risks and opportunities associated with climate change, it seems right that the government should support them, and other institutional investors, not only by moving ahead with its intention to issue Green Gilts but by taking account of the IA’s views on how this particular opportunity can be maximised.

### Related links:

[The Investment Association’s position paper](#)

[The Government’s declared intention to issue so-called Green Gilts](#)

[Speedbrief: Greater clarity on mandatory climate change governance and reporting standards for pension schemes](#)



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