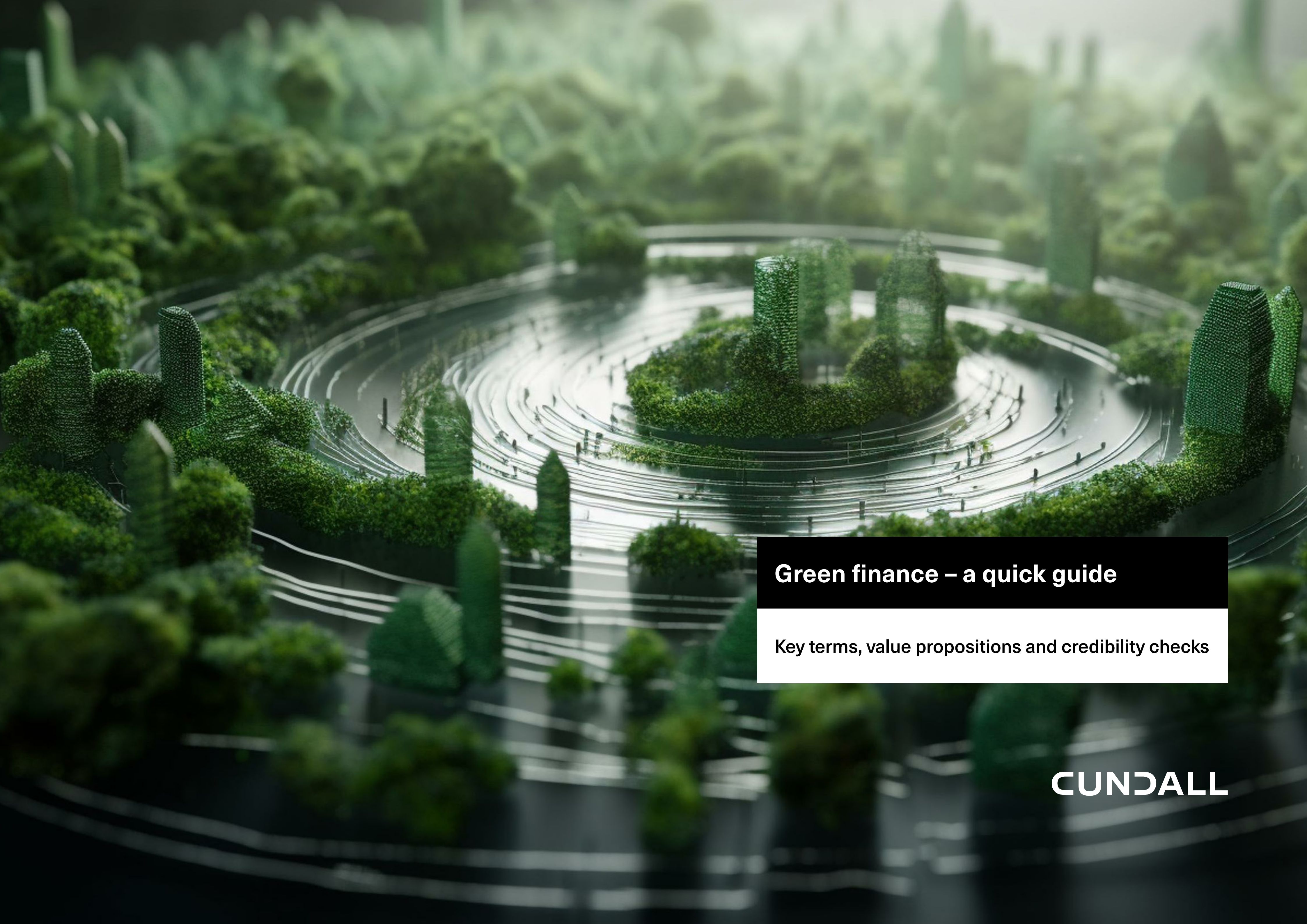


Green finance – a quick guide

Key terms, value propositions and credibility checks

CUNDALL

Our purpose
Cundall exists to create:
The best opportunities for our people and sustainable solutions for the planet

Cundall is a global, independent, multi-disciplinary consultancy delivering sustainable engineering and design solutions across the built environment. Thought leadership is a key element of our business.

We are continually engaged in self-evaluation to measure and manage our impact on, and contribution to, both industry and planet.

Green finance – a quick guide

Sustainable finance, green funds, green loans, green bonds, ethical investment... the financial world is awash in a plethora of terms for money that does good (or at least does less bad).

The number of terms can be confusing and can also create situations where regulators take a keen interest in examining the truth of ESG-related claims or branding. In the EU, Australia and UK, it is now a legal risk to use a sustainability-related term for a financial instrument such as a loan, bond or investment fund, or to make ESG-related claims about a fund, organisation or enterprise unless the words are backed by credible evidence such as transparent reporting, third-party ratings or audit-based performance verification.

It is further complicated by the tendency of all do-good dollars being lumped into one category, when there are marked differences that roughly align to the 'scopes' used for greenhouse gas auditing, as in:

1. Green Funds/Sustainable Investment Funds - things done within an organisation.
2. Financing for sustainability purposes - what an organisation empowers or enables.
3. The greening OF finance - what happens at arm's length.

This advisory explains these three main types of 'green finance', with examples of how the dollars add up to progress on the UN Sustainable Development Goals and decarbonisation of the global economy.

"A common characteristic that defines all forms of 'green finance' is the financial product, institution, policy or end use of funds needs to incorporate tangible sustainability goals and measurable positive outcomes - this is critical, to ensure green finance is not seen as 'greenwash'. The market is growing rapidly – for example in December 2023 the Climate Bonds Initiative reported the global pool of aligned finance had exceeded USD$4 trillion."

—

Ida Huang, Senior Consultant, Sustainability, Cundall Hong Kong

For more information please click here.

Key acronyms deciphered

ESG

Environment, Social and Governance – the new 'triple bottom line'.

TCFD

Task Force for Climate-Related Financial Disclosures – an organisation that advocated for and established frameworks to action investor, fund and corporate reporting on climate-related risks and emissions impacts; in 2023 this organisation disbanded and its activities are now under the remit of the IFRS foundation.

IFRS

International Financial Reporting Standards – a global foundation that develops standards for reporting, accounting and disclosure of sustainability-related impacts to ensure there is a common framework to guide investment and governance decisions world-wide.

ISSB

International Sustainability Standards Board – created by the IFRS in partnership with stakeholders, the ISSB has established a common suite of standards for auditing and reporting sustainability impacts which is aligned with frameworks including emerging financial due diligence and accounting regulations in the EU, UK and Australia.

GRESB

Global Real Estate Sustainability Benchmarking – reporting and rankings of real and infrastructure assets and portfolios.

REIT

Real Estate Investment Trust – a company, listed on the stock exchange, that owns and operates real estate assets to generate income for shareholder investors, including both private shareholders and institutional (fund) investors such as superannuation funds; also known as a 'PIF' (Property Investment Fund).

REIG

Real Estate Investment Group – a group of private investors that buy, lease and sell property assets, the group may operate as a private (non-listed) entity.

CDP

Formerly the Carbon Disclosure Project – global reporting of sustainability, targets, actions and governance (including greenhouse gas emissions across scopes 1, 2 and 3) with peer benchmarking.

GRI

Global Reporting Initiative – creates and publishes sector-specific standards and frameworks for credible reporting on ESG matters including biodiversity impacts, human rights issues and integration of the UN Sustainable Development Goals.

PRI

Principles of Responsible Investment – a UN-backed opt-in initiative to publicly disclose ESG screens for investment decisions.

UN SDGs

The United Nations Sustainable Development Goals are a globally-agreed set of 17 goals/indicators for an equitable, sustainable and prosperous global society that meets the needs of present and future generations while operating within the carrying capacity of the Earth's natural systems including water, vegetation, soil, sunlight, biodiversity and climate.

Financed Emissions

These are the greenhouse gas emissions of any entity or asset a fund, financial institution or other type of investor has provided capital or debt finance to.

1. Green funds/sustainable investment funds

What it is:

This is a financial entity, fund or real asset investment that is entirely focused on aligning its investment and spending decisions with credible environmental and social outcomes, with governance mechanisms in place to ensure the aims and goals are matched by outcomes.

Examples:

- Australia's Clean Energy Finance Corporation.
- A community-owned solar farm trust.
- A member-owned ethical superannuation fund.
- A REIT, REIG or PIF that mandates every asset having a Green Star, NABERS, BREEAM or LEED rating.

Credibility check:

Does the entity/fund disclose its sustainability data and reporting publicly? Is it rated and audited in alignment with the ISSB Standards (or local equivalent)? Are its Governance policies published and publicly-accessible? Are investment criteria clear, and the methodology for determining the 'green' or 'ethical' status of an investment decision explained? Are there appropriate third-party verifications such as GRESB, CDP, or PRI reporting?

2. Financing for sustainability purposes

What it is:

Many global financial institutions and capital providers have created specific loan or investment products that are specifically tied to verifiable ESG outcomes. This kind of green finance can be attractive to borrowers as it may offer more competitive interest rates, require lower deposit outlays, or enable the borrower to enjoy favourable taxation arrangements.

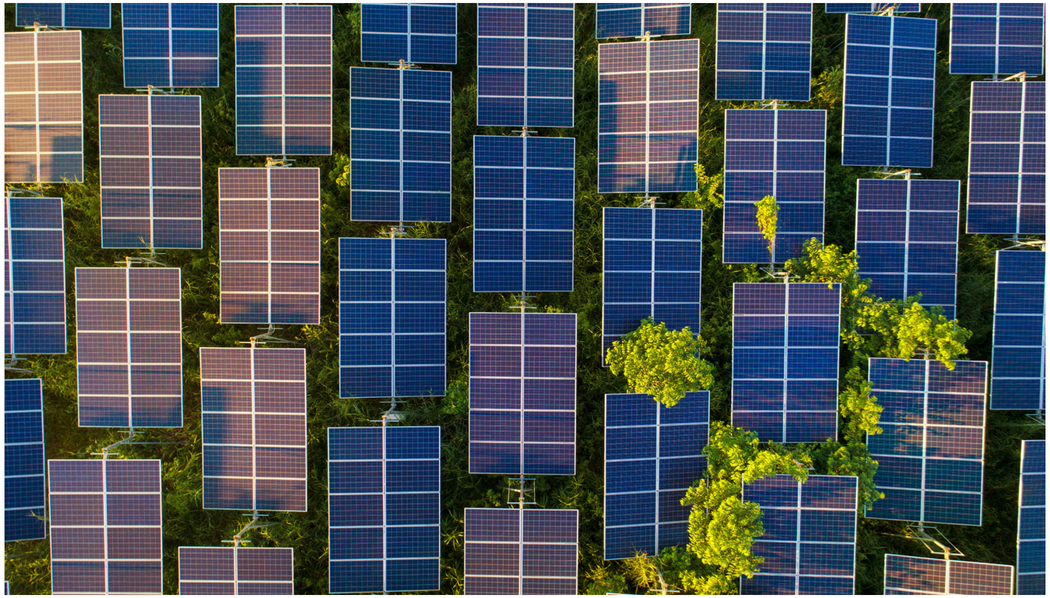
Examples:

- Sustainability-linked loans, which enable the borrower to develop new or upgraded assets or processes that demonstrate a quantifiable reduction in greenhouse gas emissions, water consumption or waste creation.
- A ‘green bond’ issued by a government or financial institution which is certified by the Climate Bonds Initiative (CBI).
- Green loans, issued by banks or other financial entities to fund the development or upgrade of assets, businesses or processes.
- Impact investment capital, capital funds provided to an organisation to achieve ESG outcomes through initiatives such as scaling a new invention or developing real assets such as social housing.

Credibility check:

Be aware that even if a financial institution provides green finance products, it does not mean the institution or fund as a whole entity is a sustainable fund. Some banks that provide sustainability-linked loans also provide finance to new fossil fuel developments and other unsustainable entities.

3. The greening of finance



What it is:

Consumers and investors are becoming increasingly aware that where they put their money has implications for their own ethical position. The concept of 'financed emissions' is increasingly on the radar, as are concerns such as modern slavery (which is illegal now in many nations), habitat destruction and water pollution.
In response to this, many financial organisations and investors are taking steps to assess, disclose and mitigate the degree to which their activities, choices and capital directly or indirectly cause harm and are contrary to ESG goals and policies.

Examples:

- A bank publicly commits to ending any loans to new fossil fuel developments.
- A superannuation fund applies a modern slavery compliance screen to its investments.
- A REIT ensures all new developments and refurbishments are all-electric, eliminating on-site fossil fuel combustion.
- An investor withdraws capital from a company that relies on palm oil produced as a result of destroying rainforest Orangutan habitat.
- A global investment trust develops a comprehensive sustainability approach incorporating a Science-Based targets aligned decarbonisation strategy and is publicly reporting on its contributions to progress on the UN SDGs.
- A credit union ensures all branches obtain NABERS ratings for their tenancies and is procuring Fair Trade-certified tea and coffee for staff and client use.

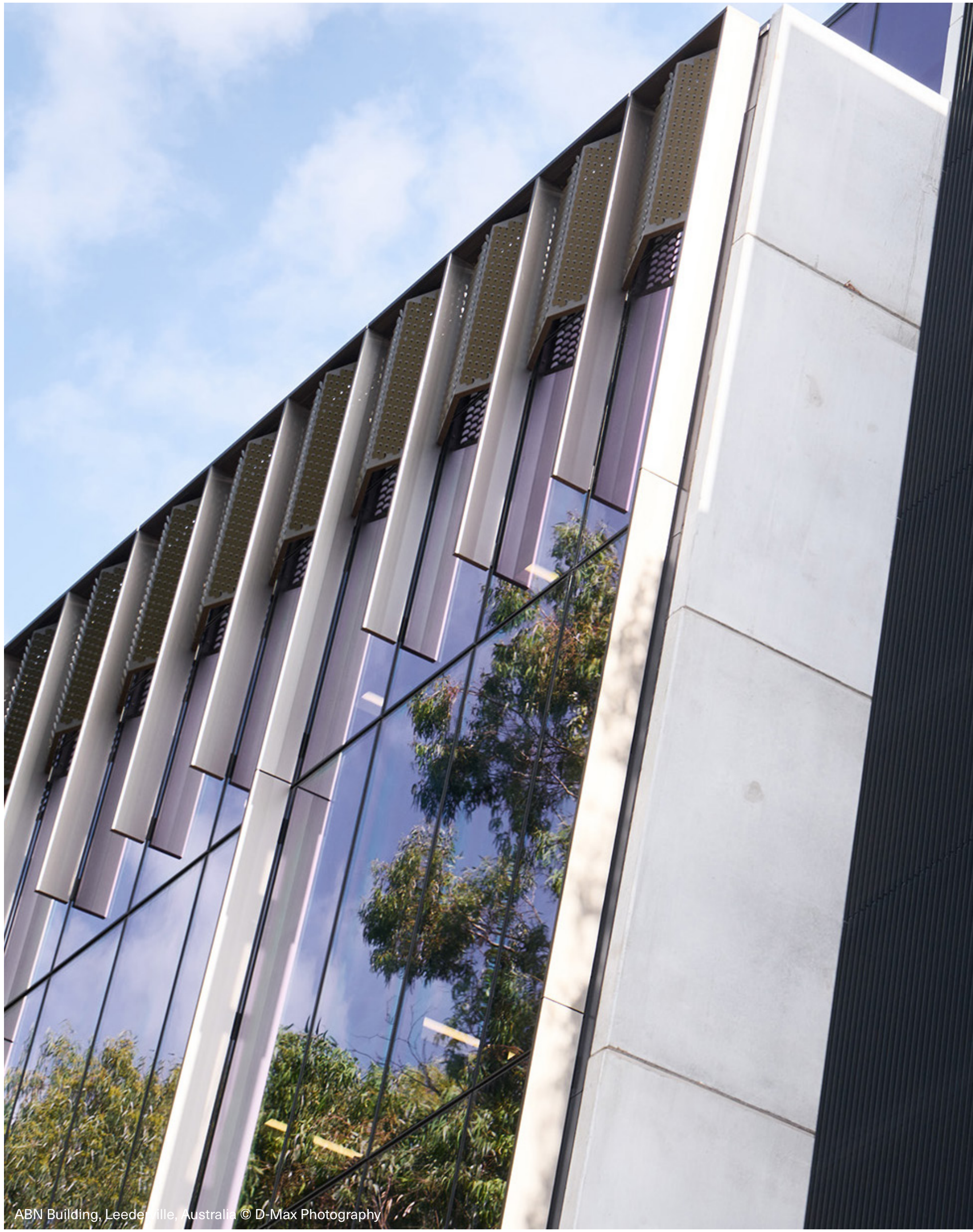
Credibility check:

It is important to consider the full picture and identify whether the positives outweigh the negatives – comprehensive sustainability reporting should be publicly available and give a clear picture of the ESG focus areas, targets, and metrics on progress towards those targets.

Get in touch

www.cundall.com

www.linkedin.com/company/cundall



ABN Building, Leederville, Australia © D-Max Photography

CUNDALL

www.cundall.com
Asia Australia Europe MENA UK & Ireland

Designed and produced by Cundall graphics and marketing