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WORKING PAPER

THE DEVELOPMENT OF THE GREEN BOND MARKET IN RUSSIA

SURVEY RESULTS OF THE RUSSIAN COUNCIL ON THE
PRIMARY CAPITAL MARKET

SEPTEMBER 2018

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The logo consists of a blue square containing the text "SRO" and "NFA" in white, stacked vertically.

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INTRODUCTION

By signing the Paris Agreement, the Russian Federation expressed its commitment to take comprehensive efforts to combat climate change and its consequences¹, which will also require funding for projects aimed at implementing measures to reduce environmental pollution and climate change. Thus, in Russia at the state level was set the vector of development of the green and other sustainable projects.

Taking into account the best international experience, Russian capital market participants may jointly develop common market approaches for creating instruments for sustainable financing of environmental projects in Russia, thereby creating and proposing a strategy for subsequent evaluation and development of policy by government agencies executive authorities and the Bank of Russia to support sustainable financing at the national level as the capital market plays a vital role in raising finance for economic development.

For these purposes Self-regulatory organization «National Finance Association» (hereinafter – NFA) conducted a survey about the perspectives and possible framework for issuing green bonds in Russia of members of the Russian Council on the primary capital market, which together represent more than 70% of bond originators and underwriters of the Russian bond market.

According to the survey results the Russian green bond market is still in the beginning stage. Investment and market drivers, supported by

favourable government and regulatory policies, can significantly contribute to the development of the green economy in Russia.

The survey showed that there are good preconditions to ensure further development of a green bond market in Russia that will ensure the implementation of adopted local and international programs and established targets by the government authorities.

At the same time, government support aimed at reducing the costs of issuing green bonds will significantly increase the attractiveness of this product for investors and issuers. Government support measures such as, for example, subsidising an independent evaluation of projects of issuers, preferential taxation and special conditions for the reservation of banks' capital in green financial instruments will have a significant effect.

The lack of a national methodology and taxonomy of green bonds at the moment should not limit Russian issuers and investors as the ICMA Green Bond Principles may be used, the key provisions of which can later be considered as one of the elements of creating a national methodology and taxonomy within the regulatory framework.

At present, market principles for the establishment of the green bond market in Russia may be considered preferable in comparison with the principles and approaches created at the regulatory level, as this may lead to the

1 To the date the Paris Agreement was not ratified by Russia // https://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXVII-7-d&chapter=27&clang=_en

risk of additional obligations for issuers that could potentially limit their willingness to go for the market and, accordingly, issue green bonds. Russian banks, together with issuers and investors, can institutionalise and form this segment of the capital market in Russia.

A significant role in creating green bond market lies with investors, in particular, pension funds and asset management companies, which are the most significant players in the debt market with a long investment horizon. Paying more attention to environmental, social and management risks, such investors will be able to support the implementation of the green and other sustainable development programs in Russia and form a culture of responsible investment.

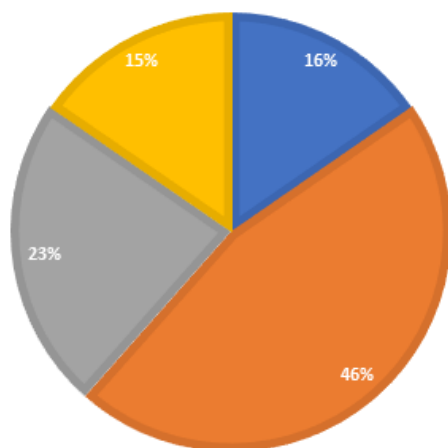
The joint work of financial market participants interested government bodies, Bank of Russia and considering the best international market practices, will allow Russia to create the necessary conditions and incentives for the development of a green bond market.

NFA, together with the international organisations and trade associations, financial market participants, Bank of Russia and government authorities, as well as other interested parties, will work to create a favourable environment for the development of green and sustainable finance in Russia.



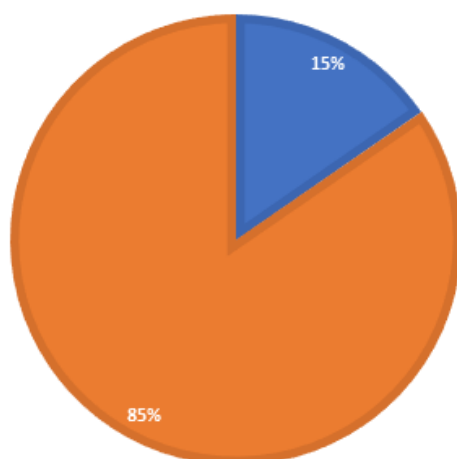
SURVEY RESULTS

■ Low / potentially could exist ■ No ■ In case of state support ■ Yes



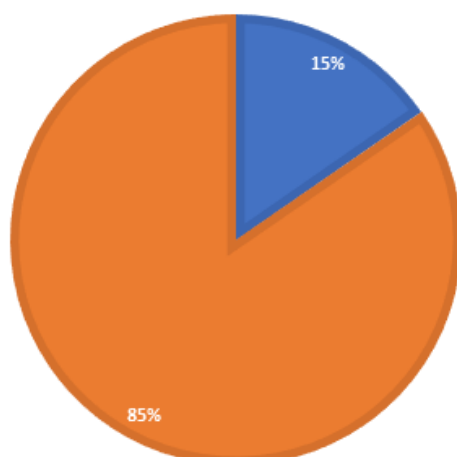
1. Do you see any demand from your clients for issuing green bonds?

■ Yes (in a form of eurobond issue) ■ No

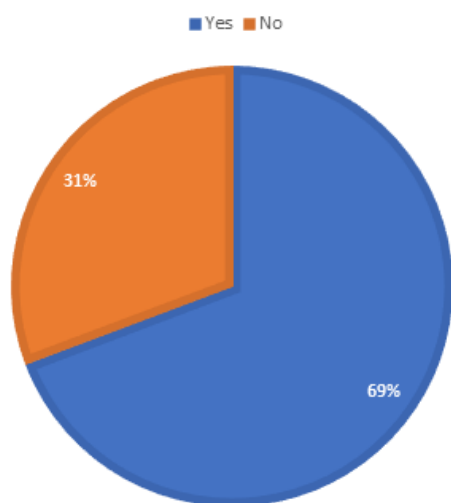


2. Have you considered international exchanges for issuing green bonds (for example, Luxembourg Green Exchange)?

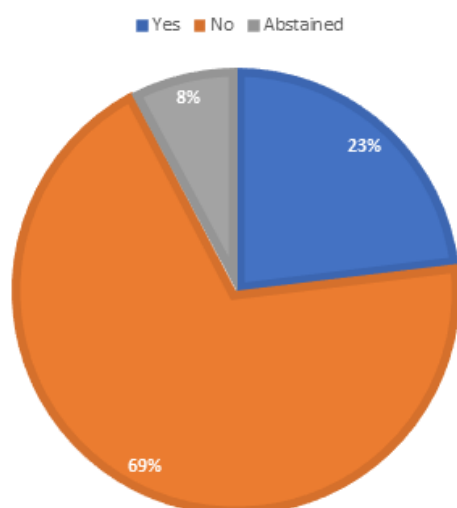
■ Yes ■ No



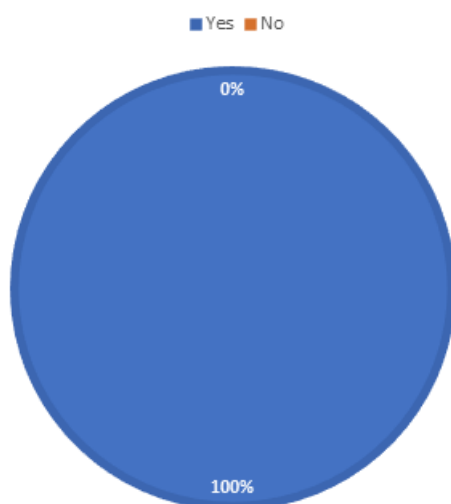
3. Have you considered issuing green bonds on the international OTC market?



4. Do you consider an obstacles/ restrictions for the development of the Russian green bond market the absence of specific government benefits (programs) or other preferences for issuers of green bonds?



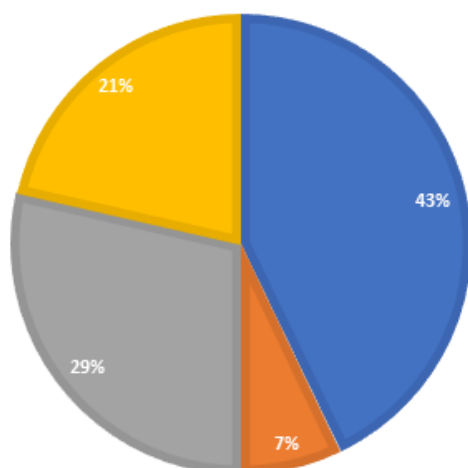
5. Do you consider the mechanism of public-private partnership set by the Federal Law of 13.07.2018 No. 224-FZ «On public-private partnership» as a sufficient measure of state support for projects of potential green bond issuers?



6. Do you consider the establishment of regulatory preferences for green bonds in Russia necessary for the development of the green bond market in Russia?

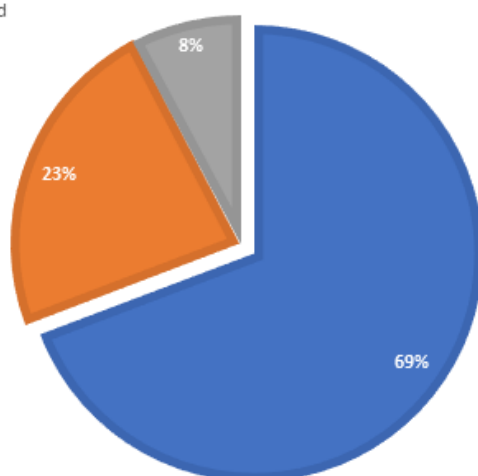
SURVEY RESULTS

■ Yes ■ No ■ Implementation of the ICMA GBP ■ Other suggestions



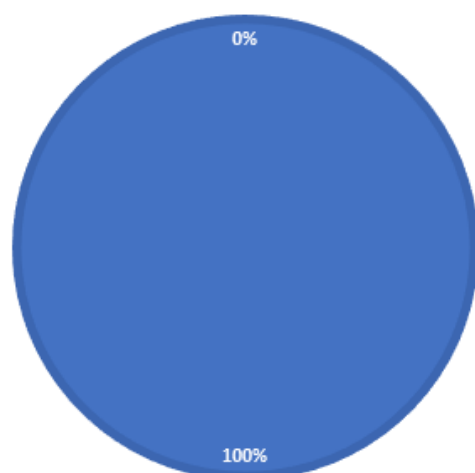
7. Do you consider it expedient to develop a specific Russian market principle of green bonds within NFA coordination or is it more appropriate to fully implement ICMA Green Bond

■ Yes, in case of implementation of the ICMA GBP
■ No / Should be additionally discussed
■ Abstained

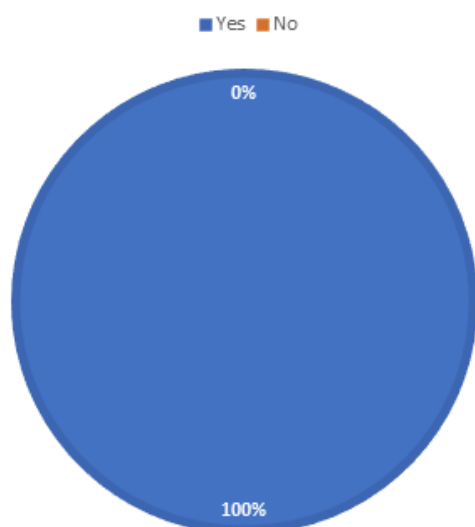


8. Do you consider it expedient to create a market system for verifying green financing projects within NFA coordination?

■ Yes ■ No

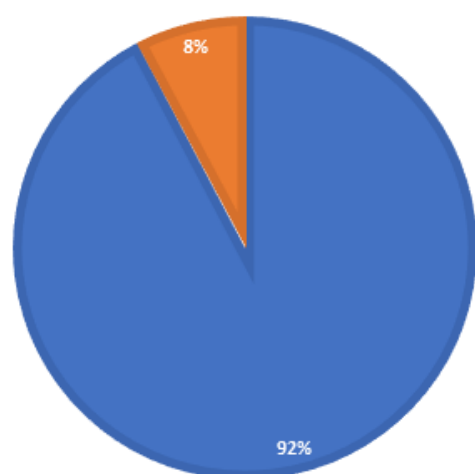


9. Do you consider it expedient to develop recommendations/ standards for disclosure of information and control over the use of



10. Do you consider it appropriate to develop standardised rules for disclosing information on climate and other risks when issuing green bonds?

■ Yes ■ If the GPB are adopted in Russia, this initiative is not relevant



11. Do you consider appropriate to set the list of projects (not an exhaustive list), the financing of which will not be allowed in the framework of green bonds (for example, gambling, the tobacco industry and others)?



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