

# Sustainability Standards and Labels

## Overview for Green Bond Market Participants



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# Introduction

The use of sustainability standards or labels as suitable reference for assessing the greenness of an investment has been a practice in the green bond market for years. It is not uncommon for issuers to include these standards in their frameworks to qualify environmental use of proceeds.

This document provides an overview for green bond market participants to consider when they are assessing the relevance, strengths and weaknesses of various sustainability standards or labels as suitable reference for assessing green eligibility.

## Sustainability Standards

Sustainability standards and labels, with focus on environmental aspects, also known as environmental labelling and information schemes, are developed with the aim of conveying information on the environmental quality and performance of a product, process or service to an external audience.

While not capturing fully the diversity of standards, labels and scheme constructions presently in use, the International Standards Organization (ISO) makes a distinction on these initiatives in three categories, as follows:

### **Type I – Ecolabels (ISO 14024)**

- Seal or logo based on a set of multi-attribute criteria;
- Third-party-certified, voluntary schemes focusing on non-food products
- Typically aimed at consumers

### **Type II – Self-declared environmental claims (ISO 14021)**

- Claims made privately by companies describing a product based on characteristics following general guiding principles
- Not third-party certified, but expected to be verifiable and accurate

### **Type III – Environmental declarations (ISO 14025)**

- Quantitative indicators of environmental performance based on Life Cycle Assessment for objective comparisons between products fulfilling the same function
- Generally Business-to-business, or used in public procurement

ISEAL<sup>1</sup>, the global membership organization for credible sustainability standards, sets best practices for standard systems, with a view to ensuring sustainability is at the heart of the standard; improvements resulting from the application of the standard are demonstrable; the standard is

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<sup>1</sup> <https://www.isealalliance.org/>

relevant and fit for purpose, structured to deliver quality, built on a multi-stakeholder process, impartial, transparent, accessible, truthful and efficient. In reality, standards can be developed and administered by a variety of institutions, including private, public, for profit and not-for-profit institutions, amongst others. The manner in which these institutions develop and structure their standards can differ significantly, as can the ways in which compliance and impact are assessed. For example, on one end of the spectrum, some standards are set through transparent multi-stakeholder consultative processes that are open for public comment and debate, while others are private initiatives informed by internal expertise and knowledge. Similarly, compliance with some standards is determined by independent accredited assessors, while in other cases compliance could be determined by the same organization setting the standard.

Sustainability Standards, labels and schemes can also differ in the degree to which they address the key sustainability challenges and associated with the processes, activities or goods covered. While some standards take a comprehensive approach to addressing all environmental and social risks/opportunities associated with the given process, activity or good others may be more selective with regards to the elements they focus on.

Benchmarks have emerged to foster comparability between sustainability standards, labels and schemes. Two examples include the Standards Map<sup>2</sup> administered by the International Trade Centre<sup>3</sup> and the Ecolabel Index.<sup>4</sup> The Standards Map compares various standards for tradeable goods both in terms of (1) process aspects, associated with how the standard is audited, how claims and labelling are managed, how appliers of the standard are supported, how the standard is set and how the standard is governed, and (2) requirement aspects related to the environmental and social considerations, management, quality and ethics. The system is based on a self-assessment by the standard, label or scheme. The Ecolabel Index provides an overview of the characteristics of the ecolabel, the standard development process, information on how the standard is assessed and managed.

It should be noted that the ISO classifications, ISEAL requirements and the Standards Map benchmarking tool are examples of reference points that are available to the public with which to consider the strength of various sustainability standards, labels and information schemes. These are not exhaustive and this document may evolve over time to include additional examples.

## Guidance for Green Bond Market Participants

The variety of approaches that exist in the standard setting, application and verification processes influence transparency, credibility and positive impact, and, therefore, green bond market participants should consider the relative strengths and weaknesses of a given environmental standard in their assessment of whether it is a suitable reference for assessing the use of proceeds of green bonds.

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<sup>2</sup> <http://www.standardsmap.org/identify>

<sup>3</sup> <http://www.intracen.org/>

<sup>4</sup> <http://www.ecolabelindex.com/>

In making their assessment, green bond market participants (issuers, underwriters, investors and external reviewers) could consider information on:

- How the standard is governed
- How the standard is set
- How the standard is communicated
- Who is responsible for setting the standard and verifying compliance with its requirements
- To what extent the application of the standard can be disputed by stakeholders
- How are positive environmental outcomes and the respective level of greenness enshrined in the standard and measured
- The degree to which all of the above is transparently communicated to all stakeholders

In answering the above and other relevant questions the Green Bond Principles encourages the standard setting bodies (including relevant standards, schemes or labels) to fill out the “Relevant Green Bond Market Information on Sustainability Standards Form,” especially when such standards are already used in the green bond market. Alternatively, market participants can use public information on a standard, label or scheme or publicly available benchmarks could also be used in making an assessment on a given sustainability standard, label or scheme.