The establishment of green investment standards makes it easier for investors and issuers to select eligible assets. Green finance is growing strongly, both globally and in Asia, over US$220 billion in green bonds and loans have already been issued this year, with forecasts at end-December 2020 to be approximately in the US$250 billion region.

Supported by the International Capital Market Association (ICMA) Green Bond Principles, the Green Loan Principles, the ASEAN Green Bond Principles and the Climate Bonds Standard, new financial instruments are being brought to the financial markets to fund projects that promise to deliver sustainable solutions to the many challenges posed by climate change in the region. Many corporate issuers are considering issuing more green bonds globally, and in particular here in Asia, where the need is huge for the development of new climate-resilient infrastructure.

The growing evolution

The journey to the green debt market may seem complex and at times ill-defined to issuers unfamiliar with the process. Yet the global market has now evolved towards increasingly well-defined frameworks that can offer clear and science-based methods for incorporating environmental, social and governance (ESG) and low carbon principles with corporate financing.

The Climate Bonds Initiative, an international not-for-profit organisation, supports issuers in their journey to issue green debt instruments for the purpose of financing projects by ensuring that the projects are in line with the objectives of the Paris Agreement of limiting global warming to below two degrees using a science-based standards framework.

Incorporating features of the ICMA framework with the four pillars around project selection, management and reporting, the Climate Bonds Standard goes further by using a sector based criteria and associated taxonomy, against which issuers can obtain a certification. This provides assurance to investors potential risks around greenwashing, a process of giving the false impression and misleading one into believing that a company's products are environmentally friendly, is minimised.

Green bonds certified by the Climate Bonds Initiative have already exceeded US$100 billion globally, demonstrating the value of creating a solid, science-based standard for financial markets.

A successful Singapore story

There are many successful issuers of green bonds in Asia. One example of an early adopter can be found in the Asia real estate sector. As a multi-national real estate company, Singapore-based Frasers Property Limited has been active in the green finance space and provides an example of the pace of green evolution in investment practices. The firm’s green loan journey, as explained by the group chief financial officer, Loo Choo Leong, is a natural extension of its strategic focus on sustainability.

The real estate multinational decided to tap green funding as part of its capital management strategy on the announcement of Green Loan Principles from ICMA and Asia Pacific Loan Market Association (APLMA) as early as 2018. Its initial green transaction was in September 2018, closing a S$1.2 billion five-year syndicated green loan to refinance existing loans relating to the development of Frasers Tower, a 18-storey Premium Grade A office tower in Singapore’s Central Business District that has been rated Green Mark Platinum by Singapore’s Building and Construction Authority (BCA). This was the first such loan in South-east Asia to comply with the ICMA Green Loan Principles.

Momentum followed in 2019 with another four successful green loan issuances. In March 2019, Frasers Property issued a S$785 million five-year green club loan in line with the APLMA Green Loan Principles to refinance a development loan for Northpoint City South Wing, part of the largest integrated development in the north of Singapore. This development incorporated a suite of green features such as low emissivity double-glazed glass and highly-efficient air-conditioning and lighting systems.

That same month, Frasers Property Australia secured an A$600 million (S$559 million) five-year green loan, the first corporate syndicated green loan in Australia derived from the same LMA/APLMA Green Loan Principles. The loan incorporated an innovative reducing pricing structure with interest cost savings from the second year onwards if Frasers Property Australia’s five-star Global Real Estate Sustainability Benchmark (GRESB) ratings are maintained.

In June 2019, Frasers Logistics & Industrial Trust, one of Frasers Property’s stable of Reits, secured an A$170 million club loan to refinance a portfolio of five-star GRESB-rated logistics facilities.

Lastly, in July in the same year, Frasers Property, through its wholly-owned subsidiary, Frasers Property Treasury Pte Ltd secured an A$500 million five-year green loan to refinance loans relating to Alexandra Point and 51 Cuppage Road, both buildings rated Green Mark Platinum and Green Mark Gold by BCA, respectively. The latter green loan also incorporated a reducing pricing structure linked to BCA’s Green Mark Scheme, the first such loan of its kind in Singapore.

As an early adopter of green financing among real estate companies in region, Frasers Property had to work closely with several major banks and financial institutions who have never done green financing. There was a steep learning curve for both financier and issuer to overcome collaboratively.

The process with Frasers Property and other early adopters of green loans helped encourage new lending in the finance and property sector for green and sustainable assets with partner banks gaining confidence to roll out green loans with their other customers.

A promising green finance hub

The establishment of green investment standards such as from APLMA has created a platform for issuers, financiers and investors to increase exposure to green finance. In the early days of green finance, many were pointing to the lack of standards on what constitutes green assets. Today, the standards exist at the regional (ASEAN Green Bond Principles) and global level (Green Bond Principles, Climate Bond Standard), making it easier for financiers and issuers to select eligible assets.

Frasers Property’s rapid expansion in the space and positive investor response is a pointer to future growth potential. Other listed companies on Singapore Exchange will hopefully also do the same.

The growing evolution in green finance in Singapore received yet another boost. The recent announcement of new policy initiatives to support green finance demonstrates a commitment by policy makers to enable financial markets to be more supportive of the climate change agenda. Singapore is working towards reducing emissions of climate change gases. The city state is also seeking to expand its position as a green finance centre in Asia. The benefits are twofold – more companies in Singapore will go down the green finance path, and in doing so, help Singapore’s green business credentials, which is deemed a win for all.

Cedric Rimaud, CFA, has been managing fixed income portfolios and analysing corporate bonds for the most part of his career. He is currently the ASEAN Program Manager for the Climate Bonds Initiative.

Loo Choo Leong is Group Chief Financial Officer of Frasers Property Limited, Choo Leong has Group responsibility over the Finance, Accounting, Taxation, Risk Management and Investor Relations functions. Choo Leong also develops and drives the Group’s framework for effective capital management.