INVESTORS *for* PARIS COMPLIANCE

Denise Odaro, Chair, Executive Committee
ICMA Sustainable Bonds Principles
c/o International Capital Market Association
Dreikönigstrasse 8
8002 Zurich, Switzerland
Via email: GBPHelpdesk@icmagroup.org

April 25, 2022

Dear Ms. Odaro:

We are writing to urge the Executive Committee to address the issue of the greenwashing of emissions expansion in the next Principles updates for Green Bonds, Sustainability Bonds, and Sustainability-Linked Bonds.

We are a shareholder advocacy organization in Canada. We recently filed a shareholder proposal with Royal Bank of Canada regarding examples of its "sustainable financing" going to projects that were in fact *increasing* emissions. In engagement with the bank, it claimed to be faithfully following the guidelines laid down by ICMA. Unfortunately, it was correct, thereby exposing the gaps in the Principles.

We believe this issue poses an existential risk to the entire sustainable bond enterprise, since if the real-world impact is opposite to that intended, there is no credibility and therefore no reason to engage in the enterprise in the first place. Fortunately, we believe that a remedy exists with the addition of eligibility criteria.

The basic problem is that nowhere in the Principles is there a requirement that financing recipients be actually reducing overall emissions. This loophole is exploited by participants through the use, for example, of "intensity based" targets that let overall emissions rise, and the failure to account for Scope 3 emissions.

The reference by the Principles to the *Climate Finance Transition Handbook* is inadequate since there are no mandatory requirements, nothing to ensure any element of it is actually followed.

The problem is germane to all three of the sustainable-themed bond Principles but is particularly acute with regards to the Sustainability-Linked Bond Principles, since these are not use-of-proceeds instruments. Financing deemed "sustainable" can therefore end up directly enabling activity that is increasing emissions.

Here are two examples involving Canadian companies:

- In 2021 the pipeline company Enbridge issues a sustainability-linked bond at the height of the controversy surrounding the expansion of the oil sands pipeline called Line 3. The project was vociferously opposed by Indigenous peoples to the point of lawsuits and protests with hundreds of arrests. The emissions impact of the project was equivalent to 50 new coal fired power plants. The bond issuance ignored these issues by focusing KPIs only on Enbridge's intensity-based targets for Scope 1 and 2 emissions. The proceeds of the bond thereby enabled a massive emissions increase; Enbridge also flowed funds through to police agencies for enforcement activities targeting Indigenous protestors.
- In 2022 the oil and gas company Tamarack Valley Energy issued a sustainability-linked bond, partial proceeds of which it used to acquire another oil and gas company, thereby enabling it to expand production. Again, the KPIs focused on the company's intensity-based targets for Scope 1 and 2 emissions, thereby enabling proceeds to go into increasing emissions.

These examples have led to media stories reporting on greenwashing, thereby undermining the credibility of the sustainable bond enterprise. We are also aware of other controversies outside Canada, such as with the Hong Kong airport expansion.

The loophole that lets this happen must be closed. The Principles must be amended to add eligibility criteria that *at a minimum preclude companies growing their emissions - including Scope 3 - from participating in these types of financing*. Better would be a requirement that emissions are being reduced in absolute terms in accordance with climate science if the word "sustainable" is to have true meaning.

We have also written to Canada's financial regulator, the Office of the Superintendent of Financial Institutions, to outline these concerns and to ask that it consider its own guidance in this regard in order to uphold public trust in Canada's financial institutions. Ultimately, if the private sector cannot be seen to be moving to end greenwashing, then regulators will need to step in.

We look forward to your response.

Yours sincerely,

Matt Price
Director of Corporate Engagement