MSRB
Municipal Securities Rulemaking Board

GREEN MUNICIPAL BONDS 101

Green bonds are a fast-growing segment of the $4.0 trillion municipal bond market.[1] Just as ordinary municipal bonds enable local governments to cost-effectively finance basic infrastructure like bridges, schools and hospitals, "green" bonds finance infrastructure projects that also help the environment.

Because they are designed to benefit the environment, green bonds may include additional disclosures to investors—and some state and local government issuers of green bonds have included an independent verification of the environmental impact of the project. These features mean that investors may have additional considerations when evaluating whether to purchase green bonds.

The Municipal Securities Rulemaking Board (MSRB), whose mission is to protect investors, state and local governments, and the public interest by promoting a fair and efficient municipal securities market, makes information available that can help investors and their financial professionals understand how to evaluate this class of bonds. Financial professionals involved in transactions of municipal bonds, green or otherwise, are subject to the same MSRB rules intended to protect the interests of investors and issuing entities.

Examples of green municipal bonds

The first municipal bond to be labeled a green bond was issued in 2013 by the Commonwealth of Massachusetts to finance $100 million in improvements to water quality, energy efficiency, and pollution clean-up.[2] In 2016, green bonds comprised about 2 percent, or $6.5 billion, of all municipal bond issuances.[3]

Typical uses of funds raised by green bonds include:

RENEWABLE POWER PROJECTS

CLEAN WATER PROJECTS

ENERGY-EFFICIENCY PROJECTS

How can investors evaluate green bonds?

There is one internationally recognized framework, as well as numerous independent certifications and assessments, that can help investors and others identify and evaluate green bonds. The Green Bond Principles (GBP) are a voluntary set of best-practice guidelines established by a consortium of investment banks to promote transparency around the environmental impact of projects.

Financial advisors—and information disclosed by bond issuers and made publicly available by the MSRB through its Electronic Municipal Market Access (EMMA®) website— can help investors understand whether a bond adheres to standards or criteria set out in these frameworks.

Want more information about green bonds?
Check out the MSRB's About Green Bonds for a deeper dive or learn more at msrb.org.

What makes a green bond "green"?

Under the GBP, green bonds have four distinguishing components:

- An advertised objective to use the raised funds in a way that will achieve certain environmental goals
- A process for deciding how the bond's funds will be allocated, consistent with its objectives
- A commitment to independent analysis of whether the bond is achieving its environmental goals
- Transparent reporting on the bond's environmental impact

Details about all these elements and more are typically included in a green bond's disclosure documents, which are available for free through EMMA®

Questions to consider before investing

In addition to questions to ask when investing in any municipal bond, potential investors in green bonds should ask their financial professional—who has certain obligations under MSRB rules when buying or selling municipal bonds—for guidance on investing in green bonds. Questions to ask include:

1. Why and how are these bonds green? What project is being financed? What environmental benefits are expected?
2. Does the issuer provide an independent certification or assessment of its green bonds?
3. Does the issuer intend to provide on-going monitoring and reporting on the environmental impact of the project being financed by the green bonds?
4. If the issuer has issued green bonds in the past, did the issuer provide on-going monitoring and reporting of the project and were the environmental objectives accomplished?

1 Climate Bonds Initiative

2 https://www.wsj.com/articles/SB10001424127887324563004578525762271478512

3 https://www.brookings.edu/wp-content/uploads/2018/07/Wurgler-J.-et-al..pdf