



March 8, 2022

Mr. Ronald W. Smith, Corporate Secretary  
Municipal Securities Rulemaking Board  
1300 I Street NW, Suite 1000  
Washington, DC 20005

Build America Mutual (BAM) appreciates the opportunity to respond to the Municipal Securities Rulemaking Board's request for information on Environmental, Social, and Governance Practices in the Municipal Securities Market. As a municipal bond insurer, our mission is to serve investors with durable, transparent protection against default while acting as an industry utility providing efficient funding and savings to municipal issuers. Achieving those goals in today's market requires embedding ESG considerations into multiple areas of our operations. As the MSRB reviews responses to this RFI and considers whether guidance or rulemaking is necessary and appropriate, it is important to distinguish between the issues related to ESG Risk Disclosure and those associated with ESG Labelled Bonds. After reviewing the RFI, we have assembled the following comments and recommendations.

#### OBSERVATIONS ON ESG RISK DISCLOSURE

Build America Mutual is the only mutual insurer of U.S. municipal bonds and has guaranteed timely payment of interest and principal on more than \$100 billion of debt since our 2012 launch. Because BAM's bond insurance policies are irrevocable, BAM's underwriting guidelines are extensive and regularly reviewed and amended to incorporate the latest evidence regarding credit risks, including both environmental risks (primarily from natural disasters that could pose long-term risks to municipal issuer revenues) and social and governance risks. BAM has considered ESG risks as part of our credit underwriting process for every transaction we have considered for insurance since our launch in 2012 (more than 25,000 series of new-issue U.S. municipal bonds). BAM's underwriters rely on both issuer disclosures and paid and free third-party risk-analysis tools to evaluate these risks.

ESG risk disclosures and analysis – particularly those related to the potential for physical and financial damage associated with severe weather events and other natural disasters – are becoming both more important and more common as the frequency and severity of flooding, wildfires, and other events have both increased in recent years. While the quality of issuer disclosure can vary, the information available to investors to assess and manage ESG-related risks has improved significantly over the past decade – both in terms of the number of issuers making risk disclosures and the content of those statements – as industry professionals and trade associations compile, share, and adopt



best practices and disclosure checklists, like the forthcoming report from the National Federation of Municipal Analysts’ “Green Bond Disclosure Task Force.”

One development, in particular, is worth noting: The publication of the National Risk Index<sup>1</sup> by the Federal Emergency Management Agency in August. The NRI is a free service that “visualizes natural hazard risk metrics [related to 18 natural hazards] and includes data about expected annual losses from natural hazards, social vulnerability, and community resilience.” The NRI offers data at the zip code level, and while those boundaries may not align perfectly with jurisdictional boundaries for municipal issuers, in our experience, they are localized enough to provide investors and other creditors with useful information.

Ultimately, we believe there is a role for the MSRB to play in helping to raise awareness among investors and issuers of these emerging tools and best practices, and to encourage issuers and financial professionals to continue this pace of innovation. In addition, we are enthusiastic about the potential for the Electronic Municipal Market Access (EMMA) system to make this information easily searchable and retrievable for investors – building on the success of the “IHS Markit Green Bond Indicator” that was implemented last year. We do not recommend regulations requiring specific ESG disclosures at this time, primarily because the nature of ESG-related risks means that the details of what constitutes material information can vary widely and rely on the facts and circumstances relevant to individual issuers. Broad guidance reminding issuers to approach disclosure of ESG risks with the same standard of materiality they apply to financial disclosures is likely to be the most effective tool to ensure both that investors and the market receive relevant and actionable information and data and that the market’s current pace of innovation is sustained.

## OBSERVATIONS ON ESG LABELLED BONDS

BAM serves as a third-party verifier for green bonds sold by its members through the BAM GreenStar program. Between the program’s launch in October 2018 and March 1, 2022, more than \$4 billion of green bonds across 275 series were labeled as BAM GreenStar bonds – more municipal green bond transactions than any other verifier. The BAM GreenStar program was launched after more than six months of development that included extensive interviews with institutional investors and other market participants about their expectations for a labeled green bond, and the development of specific standards that allow BAM’s analysts to identify U.S. municipal bonds that align with the International Capital Market Association’s (ICMA) Green Bond Principles and are eligible for inclusion in the Green Bonds Database<sup>2</sup> maintained by the Climate Bonds

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<sup>1</sup> <https://hazards.fema.gov/nri/>

<sup>2</sup> <https://www.climatebonds.net/cbi/pub/data/bonds>; Note that the CBI Green Bond Database is distinct from its more restrictive list of “Certified Climate Bonds.”



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Initiative. Prior to launching the program, BAM was accepted as an approved verifier for CBI's Certified Climate Bonds program, an extensive review process that required us to demonstrate a robust and rigorous approach to applying the standards consistently and without conflicts of interest.

In our pre-launch research, the institutional investor community was unanimous in stating that each firm had developed its own, internal standards for determining whether a bond is eligible for inclusion in its ESG or impact investing standards, and would not solely rely on a third-party verification or self-labeling by an issuer when making that determination. We further learned that different investors can have significantly different goals for their ESG investment allocations, ranging from an exclusive focus on zero net carbon investments to a broader definition of impact investing that may not include any environmental considerations at all. We believe that BAM GreenStar and other green bond labeling programs provide value to the market by increasing transparency and helping investors identify potential candidates for their ESG portfolios, which they can then confirm with their further analysis. Given the wide diversity of opinions among investors, who are the ultimate end users of any labeling mechanism, we do not believe a single standard for labeled green bonds is in the interest of the marketplace. Instead, we encourage the MSRB to consider maintaining a database of third-party verification programs and their standards, which will help investors and issuers understand their options and select the provider that makes the most sense for their needs.

ESG-driven investment criteria can be a powerful tool for investors who want to encourage municipal issuers to adopt environmental and social impact considerations into their capital investment plans, but it is important to recognize that at this stage in its development, the market remains quite small, limiting its impact. In a review of all transactions in our portfolio, BAM concluded that between 15% and 20% of our insured par would potentially be eligible for a green designation (and that percentage would grow in future years as more issuers adopt capital plans that include specific strategies to reduce CO2 emissions). However, despite recent growth, the green bond market still represented less than 5% of new-issue municipal bonds in 2021, well below its potential. That low volume, in turn, has impeded the ability to demonstrate a premium trading value for green bonds, because there is limited evidence of the sector's liquidity. BAM agrees with the signatories of the Green Bond Pledge<sup>3</sup> that the most important strategy for improving their relevance is to expand the volume of labeled green bonds and other ESG investments. In the longer term, groups like the ICMA have publicly stated their intention to "raise the bar" for future green bond-funded investments as the labeled green bond sector grows and demonstrates sustained liquidity and premium pricing. BAM is a "registered observer" for the ICMA's Green Bond Principles governance process and supports that goal.

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<sup>3</sup> [www.greenbondpledge.com](http://www.greenbondpledge.com)



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## CONCLUSIONS

Ultimately, there is a substantial track record showing that market participants, including issuers, dealers, and municipal advisors have demonstrated that they take ESG disclosure issues seriously. That, in turn, has allowed the market to post impressive growth without significant credible accusations of “greenwashing.” We appreciate the MSRB’s interest in the disclosure issues surrounding ESG risks and ESG labeled bonds and value the role regulatory guidance can play in helping to improve transparency and investor confidence in this important market while allowing participants room to continue to embrace innovation and improve the effectiveness of their capital planning, bond issuance, and secondary market disclosure efforts. Please contact us at any time if you have follow-up questions.

Sincerely,

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Build America Mutual

Michael Stanton,  
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Build America Mutual