PRACTICAL GUIDANCE TO **ISSUE A BLUE BOND**

Sustainable Ocean Business Action Platform

AT A GLANCE

The United Nations Global Compact has launched an initiative to accelerate blue bond issuance in the financial markets. Contributions from leaders in finance, investment management, ocean industry, multilateral finance, second party opinion providers and United Nations organisations have led to a body of work which leads to a pathway to build blue bonds as a tool for improving ocean health and business opportunity.

This document outlines opportunities within the sustainable bond market to raise capital for ocean-based projects and companies that aim to make a significant contribution to the Sustainable Development Goals (SDGs)

Further developing the "blue" label for bonds under existing principles and frameworks will allow issuers to signal sustainability strategies seeking to advance a healthy, productive and more sustainable ocean.

By creating more consistent understanding of blue labeled financial instruments, we can begin to build consensus amongst market participants around what actually constitutes a blue bond.

The document outlines a number of pillars of good practice, as well as benchmarks and guidance for issuers that are based on the UN Global Compact Compact's assessment of ocean opportunities and other relevant reference points.[1]

The focus here is on the pre-issuance phase to help issuers align their sustainability strategy with a framework that the market recognizes as an investable proposition to accelerate progress towards one or more of the SDGs.

STEP 1: ALIGN WITH GLOBAL STANDARDS

STEP 2: DEVELOP A BLUE FRAMEWORK INCLUDING:

A. SETTING A BLUE BASELINE

B. DEVELOP CLEAR, MEASURABLE TARGETS OR KPIS

STEP 3: SECURE A SECOND PARTY OPINION

For all practical reasons, a blue bond may be named a "blue-green bond" or "blue sustainability-linked bond" to keep the formal reference to the ICMA principles and signal the reference to the Blue Bond Framework for recognition of relevant targets or KPIs.

This document also touches on the main steps in listing on an exchange, as well as considerations around scaling up the blue bond market. **Five recommendations are put forward to accelerate blue bond issuance:**

1. Ensuring recognition for the blue label
2. Appropriate size, yield and liquidity
3. Effective government support through issuance and policy frameworks
4. Prioritisation by multilateral development banks, such as the World Bank and European Investment Bank (EIB)
5. Evolving standards for strong reporting

1. For instance, ICMA's principles (see p. 6) and the upcoming EU taxonomy for sustainable finance

CONTEXT

The ocean's health has deteriorated dramatically in the past two decades[2] with threats such as overfishing, marine litter and acidification leaving the world's ocean in a fragile state.[3] At the same time, there has been a major increase in ocean-related activities as the intensity and diversity of interest in food, material and space provided by the ocean has accelerated dramatically in the past two decades;[4] This trend is only set to continue. There is an increasing interest among ocean industries as they recognise that corporations are part of the ocean and the wider biosphere, reliant on it, and are a primary driver of global environmental change and on delivering the 17 SDGs.[5]

The financial sector is of central importance in building a global map towards ocean sustainability and transformative change. It has increasingly addressed the risks of unsustainable business operations and has developed innovative, new financing mechanisms to incentivise actors wishing to demonstrate their corporate stewardship.

There is a high demand in the market for financial instruments that are linked to the SDGs and a principled approach to ESG.[6] Past issuances of green, social and sustainable bonds have been widely over-subscribed.

The global green bond market has grown from USD $11 billion issued in 2013 and to more than $200bn in the first 9 months of 2020.[7] Social, sustainable, and sustainability-linked bonds have also gained significant momentum in the past three years. Harnessed appropriately, the increasing volume and diversification in the sustainable fixed income market presents an invaluable opportunity for issuers to raise capital towards their long-term sustainability goals.

> Blue bonds are an emerging theme within this market, and can include sovereign, project, and corporate bonds.

Previous issuances have focused on investments within marine conservation and restoration, as well as water-related infrastructure. By building the market, expanding eligibility criteria and including corporate issuances, blue bonds can also fund business opportunities that positively impact the ocean and support sustainable development.

2. IPCC (2019). Special Report on the Ocean and Cryosphere in a Changing Climate. Available at: https://www.ipcc.ch/srocc/
3. See: National Oceanography Centre (2020) There is at least 10 times more plastic in the Atlantic than previously thought. Available at: https://phys.org/news/2020-08-plastic-atlantic-previously-thought.html; IPCC (2019); FAO (2020) State of the World Fisheries. Available here: http://www.fao.org/state-of-fisheries-aquaculture
4. Jouffray et al (2020) The Blue Acceleration. One Earth. Available at: https://www.sciencedirect.com/science/article/pii/S2590332219302751
5. UN Global Compact (2020) GC Ocean Stewardship 2030: Available at: Naumann (2020) ESG investors wake up to biodiversity risk. Available at: https://www.ft.com/content/100f0c5b-83c5-4e9a-8ad0-89af2ea4a758
6. Yu (2020) Sustainability bonds surge globally. Available at: https://www.theasset.com/article-esg/41322/sustainability-bonds-surge-globally
7. Reuters (2020) Green bonds issuance surpasses 2bln. Available at: https://www.reuters.com/article/greenbonds-issuance/green-bond-issuance-surpasses-200-bln-so-far-this-year-research-idUSL8N2GW3N8

EXAMPLES OF SOME PAST ISSUANCES WITHIN THE BLUE SPHERE:

2018

- The Seychelles, launched a USD $15 million 10-year bond designed and implemented with the support of the international community the World Bank Group and the Global Environment Facility. The proceeds will support the expansion of marine protected areas to 30% of their EEZ, improved governance for priority fisheries, and development of the country's blue economy.[8]

2019

- The World Bank launched a Sustainable Development Bond to address marine plastic waste. The bond raised USD $10 million and is sold by Morgan Stanley.[9]
- The Nordic Investment Bank traded the 5-year SEK 2 billion bond which will focus on wastewater treatment, prevention of water pollution and water-related climate change adaptation in the region.[10]
- The Nature Conservancy unveiled plans to launch Blue Bonds for Conservation, a plan to mobilise USD $1.6 billion to protect 4 million square kilometres of the world's ocean over the next 5 years by supporting 20 island nations to refinance national debt.[11]
- Asian Development Bank's (ADB) Oceans Financing Initiative, part of its USD $5 billion Healthy Oceans Action Plan, also aims to support developing countries through innovative instruments including blue bonds.[12, 13]

2020

- Mowi issued in January 2020 a Eur 200 million 5-year, senior unsecured green bond, the first ever for a seafood company. The bond issue helps the company achieve their goal of producing more food from the ocean while respecting the planet and helping local communities to flourish.[14]
- Grieg Seafood issued a senior, unsecured green bond issue of NOK 1,000 million (EUR 92.3 million), 5-year maturity to finance environmental projects including sustainable aquaculture and pollution control.[15]

8. World Bank: "Seychelles launches world's first sovereign blue bond. Available at: https://www.worldbank.org/en/news/press-release/2018/10/29/seychelles-launches-worlds-first-sovereign-blue-bond#:~:text=THE%20REPUBLIC%20OF%20SEYCHELLES%2F%20WASHINGTON,sustainable%20marine%20and%20fisheries%20projects.&text=Seychelles%20is%20an%20archipelagic%20nation%20consisting%20of%20115%20granite%20and%20coral%20islands.
9. World Bank (2019): World Bank launched bonds to highlight the challenge of plastic waste into the ocean: https://www.worldbank.org/en/news/press-release/2019/04/03/world-bank-launches-bonds-to-highlight-the-challenge-of-plastic-waste-in-oceans
10. NIB issues first Nordic–Baltic Blue Bond: https://www.nib.int/who_we_are/news_and_media/news_press_releases/3170/nib_issues_first_nordic-baltic_blue_bond
11. Nature Conservancy (2019): Blue Bonds: an audacious plan to save the world's oceans: https://www.nature.org/en-us/what-we-do/our-insights/perspectives/an-audacious-plan-to-save-the-worlds-oceans/
12. Asian Development Bank: ADB launches $5 billion Oceans Action Plan: https://www.adb.org/news/adb-launches-5-billion-healthy-oceans-action-plan
13. OECD (2020): Reframing Financing and Investment for A Sustainable Ocean Economy: OECD Environment Policy Paper No. 22 p. 28 Blue Bond list
14. https://mowi.com/blog/first-ever-green-bond-issue-from-a-seafood-company/
15. https://www.griegseafood.no/grieg-seafood-has-placed-its-first-green-bond-2/#:~:text=Grieg%20Seafood%20ASA%20has%20successfully,The%20transaction%20was%20significantly%20oversubscribed.

WHAT IS A BLUE BOND

Defined as a sector-based category that includes use-of-proceeds and KPI-linked bonds, blue bonds can be issued by companies, financial institutions, governments and municipalities, for ocean-related assets and projects to deliver on the SDGs.

WHY SPECIFICALLY "BLUE"

A "blue" label nestled under the green bond or sustainability-linked bond could allow for the expansion of eligibility criteria. (According to focus groups held by the UN Global Compact), many ocean industries do not feel immediately recognised by green bond frameworks, which have tended to focus on a few industry sectors (financials, utilities and energy and industrials).

However, the ocean also encompasses SDG strategies and activities that are less capital-intensive and diverse. A blue label can describe a type of sustainability-linked- or green bond to make the market be aware of the special nature of ocean industries, risks and opportunities.

THE PRIVATE SECTOR BLUE BOND MARKET ALREADY EXISTS- THOUGH WITH A GREEN LABEL

The blue market already exists within current sustainable bond frameworks. Sustainalytics, a Second Party Opinion provider, has conducted approximately 500 second party opinions for sustainable bonds of which approximately 25% mentioned the marine environment as a use of proceeds. Many investors have an underlying objective to create high, long-term returns. Responsible investors consider these goals to be dependent on sustainable economic, environmental, and social development.

CASE STUDY OF A BLUE BOND LABELED AS GREEN

Mowi issued in January 2020 a EUR 200 million 5-year, senior unsecured green bond was the first ever for a seafood company. Significantly oversubscribed, the issue had high interest from both dedicated green and regular bond investors The bond issue was an integral part of Mowi's sustainability strategy, The Blue Revolution Plan and will help the company achieve their goal of producing more food from the ocean while respecting the planet and helping local communities to flourish. Proceeds from the bond will be used for projects as defined in Mowi's framework, including sustainable aquaculture (investments related to ASC sites or sustainable feed production, etc). Mowi has received a positive second opinion from CICERO on the green bond framework.

THREE STEPS TO ISSUE A BLUE BOND

Blue Bond issuers can address the needs of a responsible investor if they:

1. Align with existing, global standards, with International Capital Markets Association (ICMA) frameworks as the starting point
2. Develop a Blue framework including:
   - Setting a blue baseline
   - Develop clear, measurable targets or KPIs
   - Disclose relevant sustainability performance metrics on a regular basis
3. Secure a Second Party Opinion

STEP 1: ALIGN WITH GLOBAL STANDARDS

Blue bonds need to align with existing global standards to the greatest extent possible, as institutional investors rely on the credibility and transparency they provide. Two ICMA frameworks provide the issuer with the necessary tools to finance their business to become more sustainable in their operation. The ICMA Principles for Green and Sustainability-linked bonds[16] offer guidelines that recommend structuring features, disclosure and reporting.

- **GREEN BONDS** enable capital fund-raising and investment for new and existing projects with environmental benefits. The EU Green Bond Standard, which follows ICMA's Green Bond Principles, adds to the bond product spectrum, by including EU Taxonomy features such as (i) substantial contribution, (ii) do no significant harm, (iii) comply with minimum safeguards and (iv) to the extent available, comply with EU Technical Expert Group when the definition is a "Green Project" for eligible use of proceeds.

- **SUSTAINABILITY-LINKED BONDS** aim to further develop the key role that debt markets can play in funding and encouraging companies that contribute to sustainability (from an environmental and/or social and/or governance perspective).

By aligning with these principles, a blue bond becomes a type of green or sustainability-linked bond, with funds applied to strategies or projects which advance a more sustainable or productive ocean.

Blue bonds follow the same four to five steps for quality assurance as ICMA's green or sustainability-linked bonds.

GREEN BOND ICMA PRINCIPLES

1. Define projects for Use of Proceeds
2. Evaluation and reporting: The issuer should have dedicated team members to measure and monitor progress aligned with market practices.[17] Management of proceeds: The issuer should ensure transparency by having internal compliance and reporting mechanisms recognised at industry standard levels.
3. Reporting: Metrics should be applied to verify impact on an annual basis, also by Second Party Opinions and including alignment of assets with the KPIs.

SUSTAINABILITY-LINKED BOND ICMA PRINCIPLES

1. Selection of KPIs
2. Calibration of Sustainability Performance Targets
3. Bond Characteristics
4. Reporting
5. Verification

Green Bond ICMA Principles
ICMA Principles

Sustainability-Linked Bond
ICMA Principles

Blue bonds are a type of Green or Sustainability-Linked bond with funds applied towards projects or strategies leading to a healthy and productive ocean.

17. See Sustainable Ocean Principles' Practical Guidances for support.
Available here: https://www.unglobalcompact.org/take-action/practical-guidances-for-the-un-global-compact-sustainable-ocean-principles

STEP 2: ONCE ALIGNED WITH ICMA PRINCIPLES, A BLUE FRAMEWORK IS NEEDED TO SHAPE THE OCEAN COMPONENT OF THE INSTRUMENT

The UN Global Compact *Blue Bond reference paper* published by the UN Global Compact outlines a principle-based framework using the Sustainable Ocean Principles and the *Ocean Stewardship 2030 report*.

BLUE BONDS AT A GLANCE

Overall purpose

Contribute to one or more of the 17 Sustainable Development Goals (SDGs) by financing ocean-related solutions

Baseline

- Issuer's business model and strategy is legitimate and consistent with the SDGs
- Issuer is signatory to the Ten Principles of the United Nations Global Compact and the Sustainable Ocean Principles
- Transparency criteria aligned with the International Capital Market Association's Green and Social Bonds + Sustainability + Sustainability-Linked Bonds Principles

Bond KPI

- Direct positive target contributing to one or more of the SDGs Measurable and auditable
- Significant
- "Blue" criteria defined by the *5 Tipping Points for a Healthy and Productive Ocean* and the critical ambitions outlined in the *Ocean Stewardship 2030 report*.

Blue bond issuance uses the ESG bond market to secure capital for ocean-related projects and companies that have made, or are planning to make, a significant contribution to the Sustainable Development Goals.

The proposed blue bond program should have a clearly defined sustainability goal that is connected to water or ocean-related outcomes. The bonds should be used for an activity or investment that has some type of direct relationship with those topics (e.g. aquaculture, ocean-based ecotourism, or wastewater treatment) rather than multiple degrees of separation.

A bond referred to as blue should have a KPI (or project) which provides clear ambitions that do no harm to the ocean (as outlined in the Sustainable Ocean Principles) and/or to do good (as outlined in sustainable ocean business opportunities in the *Ocean Stewardship 2030 report*).

The resulting impact of these projects can be categorized using the ABC classification developed by the members of the Impact Management Project (IMP):

A. Act to avoid harm that detracts from achieving the SDGs: Activities that are expected to prevent or reduce significant effects on important negative outcomes for people and the planet.

B. Benefit Stakeholders in relation to the SDGs: Activities that are not only expected to act to avoid harm, but also generate various effects on positive outcomes for people and the planet.

C. Contribute to solutions towards achieving the SDGs: Activities that are not only expected to act to avoid harm, but also generate one or more significant effect(s) on positive outcomes for otherwise underserved people and the planet.[18]

18. https://impactmanagementproject.com/wp-content/uploads/A-Guide-to-Classifying-the-Impact-of-an-Investment-3.pdf

STEP 2 A: SETTING A BASELINE

THE SUSTAINABLE OCEAN PRINCIPLES

The UN Global Compact Sustainable Ocean Principles (SOP) serve as a baseline for issuers to ensure they meet the minimum expectations of a holistic approach to sustainability aligned with the SDGs. As a baseline, an issuer's business model and strategy must be legitimate and consistent with the SDGs.

The Sustainable Ocean Principles show how a company takes the ocean into account as they set their own standards, risk management, reporting and disclosure on operations with regards to ocean sustainability.

The Sustainable Ocean Principles can be valuable for defining KPIs, such as eliminating forced labour in your value chain, excessive use of antibiotics in aquaculture production, waste entering the ocean, reducing climate impact etc. A compliant blue bond issuer will act in accordance with these principles.

PRACTICAL GUIDANCES FOR THE SUSTAINABLE OCEAN PRINCIPLES

The Practical Guidances complement the UN Global Compact Sustainable Ocean Principles and illustrate how a specific sector may adopt the Principles.

For each principle, the guidances provide a set of actions which can be implemented, exemplified by inspirational good practices. Each guidance includes an analysis of the sustainability challenges and opportunities of the sector. Currently available guidances include: Aquaculture, Oil and Gas, and Offshore Renewable Energy.

Further work to develop other sector specific guidances is underway including Shipping, Shipyards, Ports, Fisheries, Marine Minerals, Seaweed, Land-based Pollution, etc.

Sustainable Ocean Principles

The ocean is vital to the wellbeing and prosperity of humankind. To achieve the world community's ambitions as laid out in the Sustainable Development Goals, there is a need to expand our use of the ocean to produce food, energy, raw materials and transportation. Carrying out these activities in a sustainable manner will contribute to reducing global warming and environmental degradation. Ensuring a healthy ocean provides significant opportunities for business and global economic growth.

As described in Sustainable Development Goal 14 on Life Below Water, there is an urgent need to protect and restore the health of the ocean, which is rapidly deteriorating due to increasing temperatures, acidification, depletion of natural resources and pollution from land and sea. Businesses have a shared responsibility, alongside Government and civil society, to take necessary actions to secure a healthy ocean.

These Sustainable Ocean Principles provide a framework for responsible business practices across sectors and geographies. They build upon and supplement the Ten Principles of the United Nations Global Compact on human rights, labour, environment and anti-corruption. We, as signatories of these principles, recognize the urgency and global importance of a healthy ocean, and will take action to promote the well-being of the ocean for current and future generations. As relevant to their business, we believe that companies should:

OCEAN HEALTH AND PRODUCTIVITY

Principle 1: Assess the short- and long-term impact of their activities on ocean health and incorporate such impacts into their strategy and policies.

Principle 2: Consider sustainable business opportunities that promote or contribute to restoring, protecting or maintaining ocean health and productivity and livelihoods dependent on the ocean.

Principle 3: Take action to prevent pollution affecting the ocean, reduce greenhouse gas emissions in their operations to prevent ocean warming and acidification, and work towards a circular economy.

Principle 4: Plan and manage their use of and impact on marine resources and space in a manner that ensures long-term sustainability and take precautionary measures where their activities may impact vulnerable marine and coastal areas and the communities that are dependent upon them.

GOVERNANCE AND ENGAGEMENT

Principle 5: Engage responsibly with relevant regulatory or enforcement bodies on ocean-related laws, regulations and other frameworks.

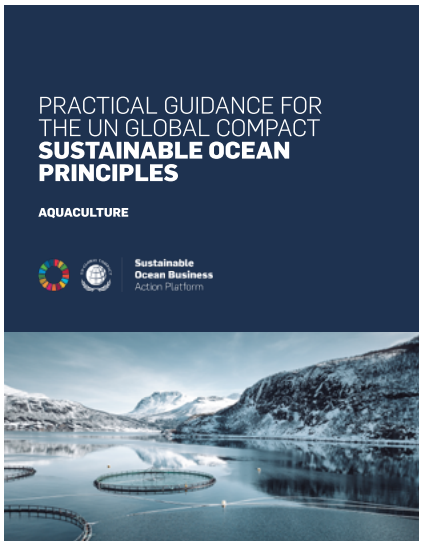
Principle 6: Follow and support the development of standards and best practices that are recognized in the relevant sector or market contributing to a healthy and productive ocean and secure livelihoods.

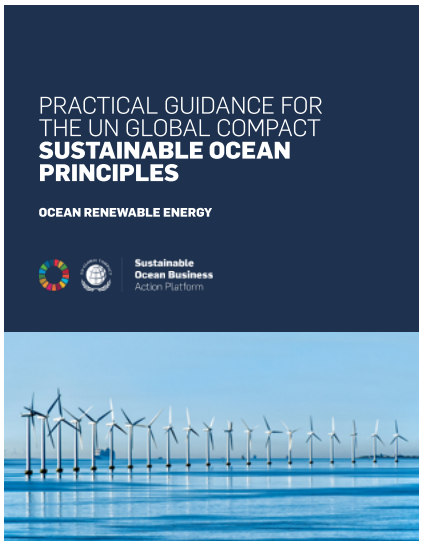
Principle 7: Respect human-, labour- and indigenous peoples' rights in the company's oceanrelated activities, including exercise appropriate due diligence in their supply chain, consult and engage with relevant stakeholders and communities in a timely, transparent and inclusive manner, and address identified impacts.

DATA AND TRANSPARENCY

Principle 8: Where appropriate, share relevant scientific data to support research on and mapping of relevance to the ocean.

Principle 9: Be transparent about their ocean-related activities, impacts and dependencies in line with relevant reporting frameworks.





STEP 2B: DEVELOP CLEAR MEASURABLE KEY PERFORMANCE INDICATORS (KPIS) OR IDENTIFY PROJECTS FOR USE OF PROCEEDS THAT ARE TARGETED AT PRIMARILY BLUE OUTCOMES

PRINCIPLE BASED FRAMEWORK OF OPPORTUNITY

There have been a number of blue bonds issued that have largely focused on conservation and SDG 14. However, this framework recognises that we need a broader definition of what applies to the ocean and the spectrum of SDG sustainable business opportunity touches. While blue bonds can be about conservation, they can also centre on sustainable business opportunities.

The credibility of the blue issuance will rest on the selection of one or two clear, "blue" KPIs,[20] which have the following characteristics:

- Direct positive target contributing to one or more of the SDGs
- Significant, measurable and auditable
- "Blue" criteria defined by the *5 Tipping Points for a Healthy and Productive Ocean* and the critical ambitions outlined in the *Ocean Stewardship 2030 report*:

THE *5 TIPPING POINTS FOR A HEALTHY AND PRODUCTIVE OCEAN*

The *5 Tipping Points* can be part of the solution for land and ocean-based companies. They provide a beacon for sustainable ocean business funding opportunities. Moreover, aligning with the Sustainable Ocean Principles and the *5 Tipping Points* shows that an issuer is aligned with the SDGs. The *5 Tipping Points* provide strong examples of projects or strategies blue bond proceeds may apply to.[19]

EXAMPLE: USING THE 5 TIPPING POINTS TO CREATE KPIs

TIPPING POINT	WHY	DETAILS EXEMPLIFYING KPI AREAS	SDGs	SDG TARGETS (EXAMPLES)
SUSTAINABLE AND FULLY TRACEABLE SEAFOOD	More sustainable and nutritious food is key to end hunger and poverty, improve health and communities.	▪ Fisheries: All operations Marine Stewardship Council certified ▪ Aquaculture: All operations Aquaculture Stewardship Council certified ▪ All produce traceable to origin	8, 14, 13, 12, 2	2.1, 2.2, 8.2, 14.1, 14.2
SET SAIL FOR ZERO	Sustainable transport is key to future trade and growth and driver of the 17 SDGs.	▪ Reducing greenhouse gas emissions below International Maritime Organization trajectory ▪ Improvement of ocean habitat	13, 14, 7, 2, 12	7.3, 12.6, 14.3
HARNESSING OCEAN ENERGY	More renewable energy must be made available and affordable world wide.	▪ Significant increase of ocean-based renewable power production ▪ Develop new renewable energy production from sun, wave and tidal energy	7, 8, 12, 13, 14	7.1, 7.2
MAPPING THE OCEAN	More insight on ocean, biodiversity, and resources is needed to make qualified decisions and solutions.	▪ Technical solutions, data centres, mapping seabed and resources ▪ Mapping biodiversity, fish resources	16, 17, 14	17.10, 17.16, 16.6, 14A
END WASTE ENTERING THE OCEAN	Healthy oceans are key to a prosperous future for food and communities.	▪ Reduction of plastic waste ▪ Reduce run-off from agriculture and cities ▪ Sustainable alternative solutions to plastic	12, 14, 3	14.1, 14C, 3.9, 12.2, 12.5

*For further reference, see also the ICMA High-Level Mapping to the Sustainable Development Goals.[20]

19. There will be other sustainable business opportunities that would also fit into a blue framework (e.g. water, biodiversity opportunities, eco-tourism, etc.).
20. Green, Social and Sustainability Bonds: ICMA High-Level Mapping to the Sustainable Development Goals provides a broad frame of reference by which issuers, investors and bond market participants can evaluate the financing objectives of a given Green, Social or Sustainability Bond/Bond Programme against the Sustainable Development Goals (SDGs). https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2019/Mapping-SDGs-to-Green-Social-and-Sustainability-Bonds06-2019-100619.pdf

STEP 3: SECURE A SECOND PARTY OPINIONS (SPO)

SPOS OFFER CREDIBILITY AND TRANSPARENCY, AND ARE BECOMING STANDARD MARKET PRACTICE.

More than 90% of labeled deals (green, social, sustainable, etc.) have external reviews and third party opinions.[21]

SPOs offer prospective investors insight into the sustainability initiatives of the issuer, as well as the sustainability aspects of the bond itself. SPO providers do not rate the actual bond issuance or the company, though some do have an ESG rating department within the company. The SPO narrative verifies that what is laid out in the bond framework, including the proposed use of proceeds, project selection and evaluation process, as well as oversight and reporting structure, is in-line with the relevant KPIs and principles.

The SPO process begins with initial conversations with the financial intermediaries and debt capital markets groups to discuss the prospective issue. SPO providers can offer guidance on how to put the bond framework together, but the SPO provider does not create the framework.

SPO companies, such as Sustainalytics, are able to have initial, early conversations, to ensure alignment within existing taxonomies and principles.

WHAT DOES AN ISSUER NEED FOR A SECOND PARTY OPINION?

A typical Second-Party Opinion Process engagement includes:

1. Kick-off Meeting	**2.** Evaluation	**3.** Feedback	**4.** Final Document	**5.** Marketing	**6.** Annual Review
■ Understand Issuer's bond and sustainability objectives ■ Understand eligibility criteria and eligible projects (scope) ■ Understand management and reporting process ■ Identify relevant documents for evaluation	■ Evaluate use of proceeds, eligibility criteria and elegible projects ■ Evaluate process of management of proceeds ■ Evaluate reporting Process and frequency ■ Assess alignment of the bond with sustainability strategy ■ Draft an opinion	■ Provide draft document to client for a factual check ■ Internal review by Sustainalytics' thematic bond review committee	■ Finalize evaluation ■ Finalize opinion ■ Receive client sign- off	■ Provide marketing support during roadshows and investor meetings ■ Coordinate press release	■ Review projects financed by green bond to ensure compliance with framework ■ Review impact reporting to ensure alignment with commitments in framework

Source: Sustainalytics' Second-Party Opinion Process

21. Sustainalytics UNGC Blue Bond Working Group presentation September 2020.

LISTING THE BLUE BOND ON AN EXCHANGE

While many green and social bonds are unlisted, security exchanges provide a venue to bring investors and issuers together, enabling greater liquidity and transparent price discovery. There are four main steps in listing a blue bond on an exchange:

1. **Choose a listing venue:** With over 34 exchanges that offer dedicated sustainable bond listing segments, there are a number of venues to consider. A full list of exchanges that offer sustainable bond segments can be found through the UN Sustainable Stock Exchanges website here.[22]

2. **Prepare and submit the offering circular:** An experienced law firm prepares the offering document to comply with relevant securities legislation and stock exchange listing rules. The law firm or appointed intermediary then submits the document to the local competent authority and stock exchange for review and typically 4 weeks prior to issue.

3. **Document approved and bond listed:** The document is approved by the local competent authority and stock exchange. This normally corresponds with the pricing and issue date of the bond.

4. **Distribute the bond to investors:** The bond can now be distributed to investors who require that the bond is listed on a recognized stock exchange.

COSTS

Using green bonds as an example, blue bonds may generate additional costs compared to a straight, vanilla bond with no specific features, in areas such as external reviews, reporting and internal planning/preparation.

However, issuers are also becoming increasingly aware that there are benefits of green bond issuance(s) especially high investor demand and diversification that can lead to greater transaction size, longer maturities and in some cases improved pricing, which may serve to mitigate the costs associated with issuance of a green bond.[23]

In addition, there is emerging academic research showing that issuing a green bond can bring a host of other benefits, such as higher brand visibility and improved equity valuation.[24]

22. https://sseinitiative.org/exchanges-filter-search/
23. See: https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/EU-GBS-consultationICMA-Final-Response021020.pdf
24. See: Glavas (2018) How Do Stock Prices React to Green Bond Issuance Announcements?
Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3279069

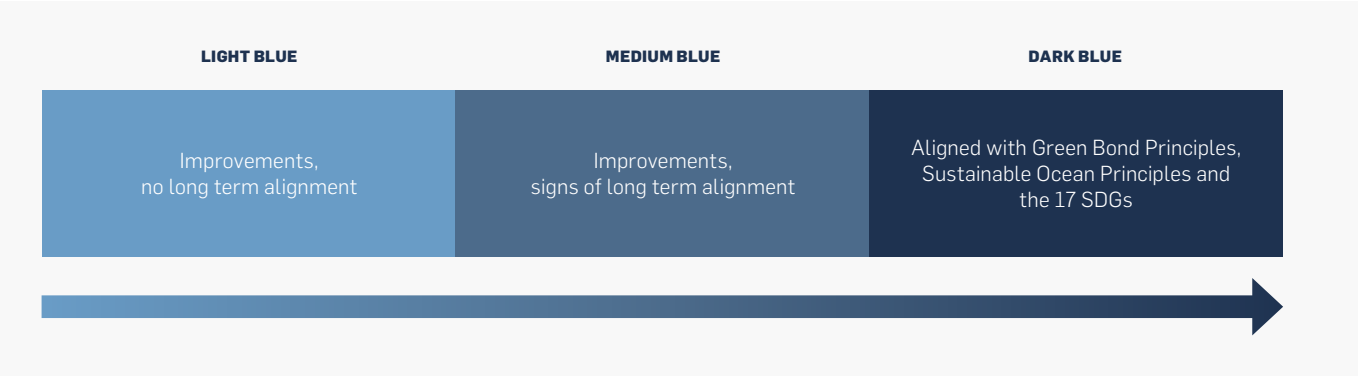
BLUE BONDS CAN BE ISSUED BY SUSTAINABLE OCEAN LEADERS, BUT ALSO BY THOSE WHO ARE HEADED IN THE RIGHT DIRECTION

Similar to a Shades of Green framework developed by Cicero, it is likely that investors may evaluate blue bonds using a blue spectrum similar to the one shown below. Transition bonds have been introduced into the market to allow companies which currently could not offer traditional sustainable bonds to issue bonds that are linked to permit their companies to gradually transition to a more sustainable business model.

The shipping sector provides an interesting example of light blue/green transition, as it is not considered a "green" industry, but decarbonizing shipping will be critical to mitigating climate change.

By having a range of blue issuance, the finance sector can support the transition of heavy industry through KPIs in bonds:

ILLUSTRATIVE SHADES OF BLUE RATING



Light Blue: Issuers who are in transition. This may include sectors where no solution currently exists, but allows the opportunity to demonstrate forward momentum and where they are going in the right direction.

Medium Blue bridge: Issuers who are getting to long-term solutions, but not quite there yet.

Dark blue: Best-in-class issuer

GOING FORWARD: FIVE RECOMMENDATIONS TO ACCELERATE THE BLUE BOND MARKET

Scaling the market will require blue bond recognition, benchmark size issues, government and large corporate involvement, and strong reporting.

1. **Ensuring recognition:** A blue bond tag or label will increase market recognition and will facilitate the development of a body of genuine blue bond issuance. It would also provide some clarity to investors who seek alignment with ocean sustainability. Many bonds today that are labeled as "green" could actually be considered "blue."There is scope for further work to provide guidance and relevant examples of baselines and types of investments which contribute to the SOPs for green bonds or KPIs for Sustainability-Linked Bonds which relate to ocean stewardship, to help companies identify opportunities to finance their business.

2. **Appropriate size:** Investors want to support sustainability, but they also look for appropriate yield and liquidity. Investors also seek benchmark sized issuances that have liquidity and are tradeable in a second hand market.

3. **Effective government support:** Government issues along with benchmark corporate issues will quickly set the stage for smaller market players to act. Moreover, accommodating policy frameworks will be crucial enablers.

4. **Prioritization by Multilateral Development Banks:** Prioritization by multilateral banks such as the World Bank, EIB, EBRD can build confidence in the sector to support issuers across a spectrum of sectors and sizes.

5. **Evolving standards:** evolving standards for strong reporting will be necessary for building a transparent and credible market.

ELIGIBLE SECTORS

- Ocean data
- Ending waste into the Ocean
- Aquaculture and fisheries
- Offshore renewables
- Shipping value chain
- Ports
- Ocean-based eco-tourism
- Water
- Waste water
- Biodiversity
- Marine Minerals
- Seaweed
- Land-based Pollution

BLUE BOND TOOL KIT

- Green Bond Principles
- Sustainability-Linked Principles
- UN Global Compact *Blue Bonds* Reference paper
- Sustainable Ocean Principles
- *SDG Bonds | Leveraging Capital Markets for the SDGs*
- Practical Guidances for the Sustainable Ocean Principles
- *Ocean Stewardship 2030 report*
- *5 Tipping Points for a Healthy and Productive Ocean by 2030*

Sustainable Ocean Principles

The ocean is vital to the wellbeing and prosperity of humankind. To achieve the world community's ambitions as laid out in the Sustainable Development Goals, there is a need to expand our use of the ocean to produce food, energy, raw materials and transportation. Carrying out these activities in a sustainable manner will contribute to reducing global warming and environmental degradation. Ensuring a healthy ocean provides significant opportunities for business and global economic growth.

As described in Sustainable Development Goal 14 on Life Below Water, there is an urgent need to protect and restore the health of the ocean, which is rapidly deteriorating due to increasing temperatures, acidification, depletion of natural resources and pollution from land and sea. Businesses have a shared responsibility, alongside Government and civil society, to take necessary actions to secure a healthy ocean.

These Sustainable Ocean Principles provide a framework for responsible business practices across sectors and geographies. They build upon and supplement the Ten Principles of the United Nations Global Compact on human rights, labour, environment and anti-corruption. We, as signatories of these principles, recognize the urgency and global importance of a healthy ocean, and will take action to promote the well-being of the ocean for current and future generations. As relevant to their business, we believe that companies should:

OCEAN HEALTH AND PRODUCTIVITY

Principle 1: Assess the short- and long-term impact of their activities on ocean health and incorporate such impacts into their strategy and policies.

Principle 2: Consider sustainable business opportunities that promote or contribute to restoring, protecting or maintaining ocean health and productivity and livelihoods dependent on the ocean.

Principle 3: Take action to prevent pollution affecting the ocean, reduce greenhouse gas emissions in their operations to prevent ocean warming and acidification, and work towards a circular economy.

Principle 4: Plan and manage their use of and impact on marine resources and space in a manner that ensures long-term sustainability and take precautionary measures where their activities may impact vulnerable marine and coastal areas and the communities that are dependent upon them.

GOVERNANCE AND ENGAGEMENT

Principle 5: Engage responsibly with relevant regulatory or enforcement bodies on ocean-related laws, regulations and other frameworks.

Principle 6: Follow and support the development of standards and best practices that are recognized in the relevant sector or market contributing to a healthy and productive ocean and secure livelihoods.

Principle 7: Respect human-, labour- and indigenous peoples' rights in the company's oceanrelated activities, including exercise appropriate due diligence in their supply-chain, consult and engage with relevant stakeholders and communities in a timely, transparent and inclusive manner, and address identified impacts.

DATA AND TRANSPARENCY

Principle 8: Where appropriate, share relevant scientific data to support research on and mapping of relevance to the ocean.

Principle 9: Be transparent about their ocean-related activities, impacts and dependencies in line with relevant reporting frameworks.

FOR MORE INFORMATION PLEASE CONTACT:

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THE TEN PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT

HUMAN RIGHTS

1 Businesses should support and respect the protection of internationally proclaimed human rights; and

2 make sure that they are not complicit in human rights abuses.

LABOUR

3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

4 the elimination of all forms of forced and compulsory labour;

5 the effective abolition of child labour; and

6 the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

7 Businesses should support a precautionary approach to environmental challenges;

8 undertake initiatives to promote greater environmental responsibility; and

9 encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

10 Businesses should work against corruption in all its forms, including extortion and bribery.

The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

ABOUT THE UNITED NATIONS GLOBAL COMPACT

As a special initiative of the UN Secretary-General, the United Nations Global Compact is a call to companies everywhere to align their operations and strategies with ten universal principles in the areas of human rights, labour, environment and anti-corruption. Launched in 2000, the mandate of the UN Global Compact is to guide and support the global business community in advancing UN goals and values through responsible corporate practices. With more than 10,000 companies and 3,000 non-business signatories based in over 160 countries, and more than 60 Local Networks, it is the largest corporate sustainability initiative in the world.

For more information, follow **@globalcompact** on social media and visit our website at **unglobalcompact.org**.

United Nations
Global Compact

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