DENISE L. NAPPIER
TREASURER

State of Connecticut
Office of the Treasurer

RICHARD D. GRAY
DEPUTY TREASURER

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Submitted via <u>www.moodys.com</u>

Mr. Henry Shilling
Senior Vice President
Moody's Investors Service
7 World Trade Center at 250 Greenwich Street
New York, NY 10007

Re: Request for Comment: Green Bonds Assessment (GBA) Proposed Approach and Methodology

Dear Mr. Shilling:

The Office of State Treasurer Denise L. Nappier manages all debt issuance of the State of Connecticut and oversees a debt portfolio of $22 billion. I am writing to provide comments on Moody's Green Bond Assessment ("GBA") Proposed Approach and Methodology dated January 14, 2016. The Assessment seeks to evaluate, assess and score the management, administration, proceeds allocation and reporting for Green Bonds.

The State of Connecticut has been a national leader in issuing Green Bonds and has brought three separate Green Bonds to market since November 2014 for a total of $375 million. As such, our office has first-hand experience with both the theory and the reality of issuing Green Bonds.

We commend Moody's for structuring its GBA scorecard off the Green Bond Principles ("GBP") that were developed and established in 2014 by a group of environmental finance experts. The GBP are voluntary, recommended guidelines that are well accepted worldwide and provide a strong starting point for any assessment program.

However, Moody's proposal applies overly stringent metrics for Green Bonds that go beyond the GBP and could actually have the unintended consequence of discouraging municipal issuers from implementing Green Bond programs. The imposition of these requirements could have a dampening impact on the development of the evolving Green Bond market.

In addition, it is doubtful that many of Moody's proposed rigid metrics are even important to the majority of Green Bond investors.

We understand the intention is to create a forward-looking opinion of a Green Bond issuer and its Green Bond offering. While many of the goals of the proposed analysis are well intended, I urge consideration of the following points:

1) Use of Proceeds - Moody's "Use of Proceeds" section defies logic. In order to be a Green Bond, proceeds must be used for GBP purposes. What is the point of even assessing a Green Bond if there is a category where only 25% of the proceeds are being used for environmentally friendly projects? Either an issuer is using proceeds for green purposes, consistent with the GBP or it is not. However, certainly allowing for a minor percentage of administrative or other associated costs might be important.

2) Organization - Moody's proposal applies a "cookie-cutter" approach to Green Bond personnel and staffing under the factor titled "Organization." But not all Green Bonds are the same, even for the same credit. For example, in Connecticut we have a dedicated debt manager who works closely with the Connecticut Department of Energy and Environmental Protection specifically for the Clean Water and Drinking Water State Revolving Fund Programs. However, should we choose to issue Green Bonds for other eligible GBP purposes, the same staffing regime may not apply. This could result in a dissimilar score for the same credit, or even within the same bond issue, if the different programs have differing assessment scores based on different oversight regimes, which could lead to market confusion and a lower value of any rating metric applied by Moody's.

3) Moody's proposed measurement and reporting of environmental impact would be a challenge for the many large, existing state infrastructure programs. In addition, the GBP recommend *expected* impact metrics not *actual* (ex-post). Ongoing reporting can raise costs and result in less issuance. For example, in Connecticut, Green Bond proceeds have, to date, been used to fund grants and loans for our Clean Water and Drinking Water State Revolving Fund Programs. These programs finance major multi-year projects and any one Green Bond issue will finance only a small portion of several large ongoing projects. Therefore, it would be a challenge to quantify the environmental impact of any particular Green Bond issue. However, this does not diminish the enormous beneficial environmental impacts these major State infrastructure programs can have and investors may be quite satisfied to understand the overall goals and intended results of these powerful programs. In addition, it is unclear how Moody's will evaluate an issuer on their reporting as any reporting will not occur for the first year; therefore how will Moody's weigh this as an assessment at the time of the bond issuance?

4) Because Moody's proposed assessment, weighting and scoring is much more stringent than the GBP, it could result in a low score that could be confusing and misinterpreted by investors and the marketplace, given an otherwise highly rated issuer.

5) The Assessment scale should be simplified and the "Poor" designation should be modified or eliminated. It would discourage new issuers from the natural growth of evolving a new program, as envisioned by the GBP. An alternative designation could be "Evolving" or "In Process." Furthermore, increased flexibility to reflect the diversity of the borrowers seeking to fund environmentally friendly projects within the Moody's assessment metrics could increase the value of Moody's in the marketplace to both issuers and investors.

Finally, given that the GBA rating would have a cost over and above the basic credit rating from Moody's, and given that any significant pricing advantage for Green Bonds has yet to be established, there will also have to be a consideration of the benefits of securing such a rating and if so, a need to review competing services for quality and price.

I think our common industry goal should be to support best practices in the issuance of Green Bonds based on measures important to investors, which includes transparency and disclosure rather than a prescriptive checklist. This will allow the Green Bond market to evolve organically using the GBP rather than another set of highly theoretical and conservative assessments that could severely thwart the natural growth of Green Bonds in the marketplace.

Sincerely,

Richard D. Gray
Deputy State Treasurer