CICERO
Center for International
Climate Research

‘Second Opinion’ on SFF’s Green Bond Framework

September 05, 2018

Summary

Svensk FastighetsFinansiering AB (SFF) was launched in January 2015 and issued its first green bond same year. SFF has now updated its green bond framework. CICERO provided a Second Opinion (dated 28.09.2015) on the company's green bond framework; this Second Opinion is an update that incorporates the amendments to the framework. In addition to a company name update (from Nya SFF to SFF) and improved tracking procedures for use of proceeds, the energy requirements for new buildings are now 20 percent below codes and regulations (a reduction from 25 percent in original framework). The issuer has also strengthened the framework by including a maximum requirement of 105 kWh per m2 (Atemp) for existing buildings to qualify for green proceeds which is ambitious, depending on how old the building is. SFF's ambitions with its green bonds program is to facilitate the financing of climate smart and ecologically sustainable real estate.

SFF's Green Bond framework and environmental policies provide a clear and sound framework for climate-friendly investments. The Green Bond framework lists eligible green properties that are supportive of the objective of promoting a transition to a low-carbon and climate-resilient growth. Eligible projects under SFF's Green Bond framework are energy efficiency projects in the buildings sector. Energy efficiency improvements in buildings are important building blocks towards reaching the 2°C goal. Procedures for monitoring and measurement of activities under the Green Bond framework are well documented. SFF's policies support regular and transparent updates to investors and the public. We are encouraged to see that this also includes information on environmental impacts. The owners are paying more and more attention to resilience issues, but there will be no screening for resilience, such as risk for flooding, when allocating proceeds. Neither will there be any screening for fossil fuel boilers in the buildings. The issuer has however informed us that it is unlikely that buildings eligible for green financing have fossil fuel boilers. If they do the policy is to replace them with renewable heating sources.

The amendments to the green bond framework does not impact our overall shading of SFF's green bond framework. Based on an overall assessment of the project types that will be financed by the green bond, and governance and transparency considerations, SFF´s Green Bond framework gets a medium green shading. SFF takes good steps on energy efficiency and green building certifications, however they are not aiming for the highest levels.

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1 Introduction and background

As an independent, not-for-profit, research institute, CICERO (Center for International Climate and Environmental Research - Oslo) provides Second Opinions on institutions' framework and guidance for assessing and selecting eligible projects for green bond investments, and assesses the framework's robustness in meeting the institutions' environmental objectives. The Second Opinion is based on documentation of rules and frameworks provided by the institutions themselves (the client) and information gathered during meetings, teleconferences and e-mail correspondence with the client.

CICERO is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO has established the global Expert Network on Second Opinions (ENSO), a network of independent non-profit research institutions on climate change and other environmental issues, to broaden the technical expertise and regional experience for Second Opinions. CICERO works confidentially with other members in the network to enhance the links to climate and environmental science, building upon the CICERO model for Second Opinions. In addition to CICERO, ENSO members currently include Basque Center for Climate Change (BC3), International Institute for Sustainable Development (IISD), Stockholm Environment Institute (SEI), and Tsinghua University's Institute of Energy, Environment and Economy. A more detailed description of CICERO can be found at the end of this report. ENSO encourages the client to make this Second Opinion publically available. If any part of the Second Opinion is quoted, the full report must be made available.

CICERO's Second Opinions are normally restricted to an evaluation of the mechanisms or framework for selecting eligible projects at a general level. CICERO does not validate or certify the climate effects of single projects, and thus, has no conflict of interest in regard to single projects. CICERO is neither responsible for how the framework or mechanisms are implemented and followed up by the institutions, nor the outcome of investments in eligible projects.

This note provides a Second Opinion of SFF Green Bonds Framework and policies for considering the environmental impacts of their projects. The aim is to assess the SFF Green Bonds Framework as to its ability to support SFF`s stated objective of promoting the transition to low-carbon and climate resilient growth.

This Second Opinion is based on the green bond framework presented to CICERO by the issuer. Any amendments or updates to the framework require that CICERO undertake a new assessment. CICERO takes a long-term view on activities that support a low-carbon climate resilient society. In some cases, activities or technologies that reduce near-term emissions result in net emissions or prolonged use of high-emitting infrastructure in the long-run. CICERO strives to avoid locking-in of emissions through careful infrastructure investments, and moving towards low- or zero-emitting infrastructure in the long run. Proceeds from green bonds may be used for financing, including refinancing, new or existing green projects as defined under the mechanisms or framework. CICERO assesses in this Second Opinion the likeliness that the issuer's categories of projects will meet expectations for a low carbon and climate resilient future.

Expressing concerns with 'shades of green'

CICERO/ENSO Second Opinions are graded dark green, medium green or light green, reflecting the climate and environmental ambitions of the bonds and the robustness of the governance structure of the Green Bond Framework. The grading is based on a broad qualitative assessment of each project type, according to what

extent it contributes to building a low-carbon and climate resilient society. The shading methodology also aims at providing transparency to investors when comparing green bond frameworks exposure to climate risks. A dark green project is less exposed to climate risks than a lighter green investment.

This Second Opinion will allocate a 'shade of green' to the green bond framework of SFF:

- Dark green for projects and solutions that are realizations today of the long-term vision of a low carbon and climate resilient future. Typically, this will entail zero emission solutions and governance structures that integrate environmental concerns into all activities.
- Medium green for projects and solutions that represent steps towards the long-term vision, but are not quite there yet.
- Light green for projects and solutions that are environmentally friendly but do not by themselves represent or is part of the long-term vision (e.g. energy efficiency in fossil-based processes).
- Brown for projects that are irrelevant or in opposition to the long-term vision of a low carbon and climate resilient future.

The project types that will be financed by the green bond primarily define the overall grading. However, governance and transparency considerations are also important because they give an indication whether the institution that issues the green bond will be able to fulfil the climate and environmental ambitions of the investment framework. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The overall shading reflects an ambition of having the majority of the project types well represented in the future portfolio, unless otherwise expressed by the issuer.

2 Brief Description of SFF ’s Green Bond Framework and rules and procedures for climate-related activities

Svensk FastighetsFinansiering is owned by Catena AB, Dios Fastigheter AB, Fabege AB Platzer Fastigheter Holding AB and Wihlborgs Fastigheter AB, with a 20 percent share each. The owners are all companies operating within the building sector of Sweden. The company's ambition is to become a financial vehicle for its owners to enable an increased focus on environmental issues. One way the company lives up to its green ambitions is to issue green bonds and provide green loans to its borrowers. The Green Bonds proceeds are secured by the existing pool of property assets from the owners/borrowers.

- ✓ Catena AB reports its emissions and are working on reducing energy consumption and emissions, but have no quantitative goals on emission reductions or energy use per square meter of its real estate portfolio.
- ✓ Dios Fastigheter AB’s goal is to reduce energy consumption by three percent annually.
- ✓ Fabege AB will decrease its energy consumption by 20 percent by 2020, equivalent to an average energy consumption of 94 kWh per square meter. At least 80 percent of all new or renegotiated lease agreements should be green.
- ✓ Platzers properties should be certified. The goal for 2018 is to certify 3 buildings. Energy use should decrease by 2 percent on an annual basis.
- ✓ Whilborg sets environmental goals for three years at the time. The current goal is for the years 2016-2018. The company will sign green leases with at least 90 percent of its new costumers. All new buildings are to be certified.

Definition:

Green bond proceeds will finance and refinance climate-smart and ecologically sustainable real estate. The share of refinancing will be reported. Properties that are certified or have begun the process to be certified in accordance with well-known building standards and comply to additional energy requirements qualify for green bond financing. In addition, existing commercial buildings where major renovations have lead to significant reductions in energy usage could qualify.

Selection:

The selection process is a key governance factor in the Green bond Principles. We typically look at how climate and environmental considerations are taken into account when evaluating whether projects can qualify for green bond funding. The broader the project categories, the more importance CICERO places on the governance process. Eligible Assets are selected by SFF’s Treasury Department. All decisions to issue Green Bonds are made by SFF´s Board of Directors. If for any reason, a property does not reach the anticipated certification level, that asset will be removed from the Green asset pool and replaced by an asset that qualifies. SFF will ensure that the properties in which the borrowers wish to finance through a green bond meets the requirements set under the Green Bond framework. Borrowers must provide documentation to show that the property has achieved an approved building certification required by the framework or documentation proving that a process (including a timeline) in achieving it exists at the time of receiving green bond financing.

Management of proceeds:

The proposed management approach for Green Bond proceeds are in alignment with the Green Bond Principles. An amount equal to the net proceeds of the issue of the notes will be credited to an earmarked account that will support SFF's lending to Eligible Assets. The proceeds will be disbursed directly from the earmarked account to Eligible Assets. The Green Bonds proceeds are secured by a pool of property assets from the owners/borrowers. Property assets used as security for Green Bonds must meet the Green Bond Eligible Asset requirements.

CICERO finds the management of proceeds to be in alignment with the Green Bond Principle.

Transparency and Accountability:

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green bond programs. Procedures for reporting and disclosure of green bond investments are also vital to build confidence that green bonds are contributing towards a sustainable and climate-friendly future, both among investors and in society.

SFF will provide an annual Investor Report that will be made publically available on SFF's webpage. The report will include a list of the projects financed including information about amounts allocated, a brief project description and the expected impact; and a summary of SFF's Green Bond development. Information will also include certification, progress report on properties that are in a certification process, energy consumption metrics and, when feasible, other key metrics relevant to the environmental impact from the financed asset(s). The Board of SFF (consisting of members from each owner company) will approve the Investor Reports.

The internal tracking method, the allocation of funds from the Green Bond proceeds and the Investor Report will be verified by SFF's internal auditor. The opinion of the internal auditor will be made publically available on SFF's webpage.

The table below lists the documents that formed the basis for this Second Opinion:

Document Number	Document Name	Description
1	SFF Green Bond Framework – August 28th 2018	
2	SFF Gröna obligationer – Bakgrundsinformation	Overview of the issuer and its owners/borrowers
3	Catena – Hållbarhet	Catena reports its emissions following Global reporting initative /GRI)
4	Diös – Hållbarhet	Diös Fastigheter AB's goal is to reduce energy consumption by three percent annually.

5	Fabege – Hållbarhet	Fabege will decrease its energy consumption by 20 percent by 2020, equivalent to an average energy consumption of 94 kWh / sq.m.
6	Platzer – Hållbarhet	At least 80 percent of all new or renegotiated lease agreements should be green. In the longer term all of Platzers properties should be certified. The goal for 2018 is to certify 3 buildings. Energy use should decrease by 2 percent on an annual basis.
7	Wihlborgs - Hållbarhet	Whilborg sets environmental goals for three years at the time. The current goal is for the years 2016-2018. The company will sign green leases with at least 90 percent of its new costumers. All new buildings are to be certified.
8	Årlig rapport 2016 til investerare i SFF's gröna obligastioner	Green bond investor report
9	Moody's Green Bond Assessment; SFF AB	November 2017 SFF received excellent grade for its green bond issuance by Moody's
10	Årlig rapport 2017 til investerare i SFF's gröna obligastioner	Green bond investor report

Table 1. Documents reviewed

3 Assessment of SFF Green Bond framework and environmental policies

Overall, the SFF green bond framework provides a detailed and sound framework for climate-friendly investments.

The framework and procedures for SFF's green bond investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects, whereas the weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where issuers should be aware of potential macro-level impacts of investment projects.

Overall shading

Based on the project category shadings detailed below, and consideration of the issuer's systematic sustainability work and strong governance structure of SFF green bond framework in terms of management and use of proceeds, we rate the framework CICERO Medium Green.

Eligible projects under the Green Bond Framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds aim to provide certainty to investors that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the "overall environmental profile" of a project should be assessed and that the selection process should be "well defined".

Category	Eligible project types	Green Shading and some concerns
Green Building	New commercial buildings certified, at the time of approval, in accordance with: ✓ LEED (minimum certification "gold");or ✓ BREEAM including BREEAM In-Use (minimum certification "very good");or ✓ Miljöbyggnad (minimum certification "silver"); and ✓ 20% less energy use per m2 and year than required by applicable codes and	**Medium Green** ✓ Building criteria are good, but not the best. ✓ In addition to climate issues, BREEAM, LEED and Miljøbygnad cover a broader set of issues, which is important to overall sustainable development.

	regulations (Boverket's Building Regulations, BBR)	✓ In a low carbon 2050 perspective the energy performance of buildings is expected to be improved, with passive and plus house technologies becoming mainstream and the energy performance of existing buildings greatly improved through refurbishments
Green Building	Existing commercial buildings where major renovations have been made leading to significant reductions in the energy use to 105 kWh per m2 (Atemp) and year or lower and with certification in accordance with: ✓ LEED (minimum certification "gold"), or ✓ BREEAM including BREEAM In-Use (minimum certification "very good") or ✓ Miljöbyggnad (minimum certification "silver")	**Medium Green** ✓ According to the issuer the BREEAM In-Use certification only cover the first part, and not the part 2 that also includes management of the building. ✓ Depending on how old the building is, the maximum requirement of 105 kWh per m2 (Atemp) for existing buildings is ambitious.
Green Building	Commercial buildings to be certified, in accordance with ✓ LEED (minimum certification "gold");or ✓ BREEAM including BREEAM In-Use (minimum certification "very good");or ✓ Miljöbyggnad (minimum certification "silver"); and ✓ 20% less energy use per m2 and year than required by applicable codes and regulations (Boverket's Building Regulations, BBR); and ✓ The certification process has started by registering the property at the built environment certification body; and ✓ The property is expected to get the certificate within a time frame of maximum 12 months	**Medium Green** ✓ According to the framework, if for any reason, a property would not reach the anticipated certification level, that asset will be removed from the Green asset pool and replaced by an asset that qualifies

Table 2. Eligible project categories

Strengths

Several voluntary environmental certification systems provide some level of measurement of the environmental footprint of a building, including energy efficiency measures. One of the most widely used certification system is Leadership in Energy and Environmental Design (LEED).

Another similar system originating in the United Kingdom is the BREEAM ratings. BREEAM SE (BREEAM, 2016) is the Swedish adaptation of this system. BREEAM also includes a comprehensive consideration of environmental and energy issues associated with buildings, including a category on land use and site selection. A rating is issued based on points earned, similar to LEED, with minimum requirements for some environmental issues.

The Miljöbyggnad certification system is specific to Sweden. The system focus on energy use, indoor climate and material in the buildings and involves a preliminary rating, which is then followed up and verified in the finished building. This system is more detailed than LEED or BREEAM SE in some aspects such as the calculation of energy efficiency, but do not cover subjects such as management, water use, waste handling, transport and siting impacts.

In the EU there is goal to reduce energy consumption in general by 20% by 2020 compared to 2008 levels. The certification schemes incorporate aspects important to long-term sustainable development, e.g. site selection and consideration of brownfields, urban density and planning, and access to public transportation. The additional 20% reduction requirement in energy usage ensures GHG reductions.

The building regulations (BBR) apply only to new buildings. There are no legal requirements that regulate the energy consumption in existing buildings in Sweden. Not only certified commercial buildings, but also those that are in a certification process within a timeframe of a maximum of 12 months, are eligible under the Green Bond framework. The company argues that the robust planning and preparation for a certain certification level ensures a high level of certainty that a property will reach the intended certification level. It follows from the framework that, if for any reason, a property would not reach the anticipated certification level, that asset will be removed from the Green Asset pool and replaced by an asset that qualifies in accordance with SFFs Green Bond framework.

The building criteria are good but may not represent the best available technologies since the highest certification levels are not required in all cases.

The reporting and validation procedures are described in the Green Bond framework. The Green Bond framework supports regular and transparent updates to investors and the public. It is a strength that the issuer will list all projects and that the investor report and the use of proceeds tracking method will be internally audited and that the issuer will report on core impact indicators.

Weaknesses

There are no obvious weaknesses in SFF's green bond framework.

Pitfalls

As a financial intermediary, SFF has not developed any sustainability goals or strategies. However, SFF can only provide loans to its owners, and as such acts as an internal bank for them. SFF owners have sustainability goals and ambitions. There is however room for improvement when it comes to quantifying these ambitions in the medium and longer term. The owners are paying more and more attention to resilience issues, but there will be

no screening for resilience, such as risk for flooding, when allocating proceeds. Neither will there be any screening for fossil fuel boilers in the buildings. The issuer has however informed us that it is unlikely that buildings eligible for green financing have fossil fuel boilers. If they do the policy is to replace them with renewable heating sources.

In a low carbon 2050 perspective the energy performance of buildings is expected to be improved, with passive and plus house technologies becoming mainstream and the energy performance of existing buildings greatly improved through refurbishments. The SFF framework is not quite there yet, but is taking valuable steps towards this long-term vision. More stringent criteria would have been required for a darker shading.

For renovations there are no binding rules, but some recommendations exist on energy efficiency and heating insulation.[1]

The issuer has also strengthened the framework by including a maximum requirement of 105 kWh per m2 (Atemp) for existing commercial buildings to qualify for green proceeds which is ambitious, depending on how old the building is. The current Swedish building requirements for new commercial buildings imposes a maximum yearly energy use limit of 80 kWh/m2 (Atemp) per year. There are however adjustment factors such as energy source and where in the country the building is situated. The regulations are valid for newly constructed buildings. For renovations there are no binding rules, but some recommendations exist on energy efficiency and heating insulation.

Impacts beyond the project boundary

Due to the complexity of how socio-economic activities impact the climate, a specific project is likely to have interactions with the broader community beyond the project borders. These interactions may or may not be climate-friendly, and thus need to be considered with regards to the net impact of climate-related investments.

Rebound effects

Efficiency improvements may lead to rebound effects. When the cost of an activity is reduced there will be incentives to do more of the same activity. SFF should be aware of such effects and possibly avoid Green Bond funding of projects where the risk of rebound effects is particularly high.

[1] IEA Sweden https://www.iea.org/policiesandmeasures/pams/sweden/name-22078-en.php

Appendix:
About CICERO

CICERO Center for International Climate Research is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international climate cooperation. We collaborate with top researchers from around the world and publish in recognized international journals, reports, books and periodicals. CICERO has garnered particular attention for its work on the effects of manmade emissions on the climate and the formulation of international agreements and has played an active role in the UN's IPCC since 1995.

CICERO is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Second Opinions won several international prizes, including an award from Climate Bonds Initiative for being the biggest second opinion provider (2017) and two awards from Environmental Finance for being the best external review provider (2017, 2018).

CICERO Second Opinions are graded dark green, medium green and light green to offer investors better insight in the environmental quality of green bonds. The shading, introduced in spring 2015, reflects the climate and environmental ambitions of the bonds in the light of the transition to a low-carbon society.

CICERO works with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions. Led by CICERO, ENSO is comprised of trusted research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD). ENSO operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

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