

Ontario's Sustainable Bond Framework – Video Transcript

Moderator: Magali Gable (*Director, Sustainable Finance, BMO Capital Markets*)

EW: Elizabeth Wallace (*Senior Manager, Funding & Foreign Exchange, Ontario Financing Authority*)

AW: Alex Wood (*Assistant Deputy Minister, Climate Change and Resiliency Division, Ministry of the Environment, Conservation and Parks*)

Moderator: The Province of Ontario has just released its new *Sustainable Bond Framework* building upon its existing Green Bond Framework from 2014. The new Framework connects buyers of these bonds more directly to projects and programs underway in the province, while also providing them with a view of the projected social and environmental impact as these bonds would be having. To discuss this new Framework, including the internal process leading to this new guiding document, we have with us Elizabeth Wallace, Senior Manager of Funding Ontario Financing Authority, and Alex Wood, Assistant Deputy Minister of Climate Change, Ontario Ministry of Environment, Conservation and Parks, I'm Magali Gable, you know me, Director of the Sustainable Finance team at BMO. Thank you for joining me today.

Moderator: So, Elizabeth, now that new Framework has 15 different categories, ten green, some of them brand new and five new social. To set the broader context, can you expand on some of the key changes and the rationale for those changes?

EW: Sure. Thanks, Magali. One of the more noticeable changes to the Framework is the better alignment of the Framework categories with the green bond principles through standardized wording. The renaming exercise of green bond project categories aligns with current market nomenclature, as category names have more granularity and consistency than they had in 2014. As you noted, this has resulted in an increased number of eligible green bond categories from 5 to 10. The second major change is the addition of five social bond categories to the Framework. The expansion of the Framework to include social project categories was done because the Framework was already being updated anyway. The government, by its nature, spends a large percentage of its budget on social projects and programing. Investor interest in social bonds has been increasing and also by including it here, it allows the Province to seamlessly add social bond issuance in the future, subject to investor demand and the willingness of the Province to issue these types of bonds. So, with these 15 categories, Ontario's new *Sustainable Bond Framework* supports 11 of the UN Sustainable Development Goals. Four more than the previous Framework. So that's where the new Framework picks up.

Moderator: Quite an expanded opportunity to highlight the various, environmental and social impacts that the Province are doing through reliable bonds. So, talking about the expanded green categories. Alex, can you please elaborate on the process within the Province and within your ministry that informs those changes and perhaps advising on the input from the Ministry of the Environment Conservation Parks.

AW: Sure. Well, I'll start by congratulating Elizabeth and her team for the release of the new Framework. But I'll just start by saying it's been a strong partnership we've had with the OFA going back to the previous Framework. But I think for this exercise, our role has been largely one of subject matter expertise around the different green categories. And so, helping OFA and Elizabeth's team, as you say, both deepen the sort of the specificity of some of the categories, but also broadening the set of categories that were and will be now available to investors in terms of project types.

Moderator: Thank you! And also, we noted that so far, a total of 28 projects will receive funding or have received funding from the existing Ontario Green bonds and they've been primarily focused on clean transportation. So, as you mentioned about the expansion of categories, how the Province is thinking about decarbonization through the whole supply chain, and perhaps if you can highlight some of the key areas where the Ontario is proactive to support decarbonization.

AW: Yeah, so decarbonization, I would say, has been now a process or an interest that has been decentralized across government, not just the interest of my ministry, but given the importance to the Ontario economy, the future Ontario economy of an essentially an electrified economy. It's been, a partnership again with OFA, but with other ministries, transportation on EV charging infrastructure, for example, our colleagues in energy are around heat pumps and our colleagues in economic development who are working with some of the key industrial sectors in the province to help them decarbonize largely through electrification type projects. So, we as a ministry are a part of that. We're coordinating in some way to the overall response, but there is an overall approach to this that you are now seeing across government and the green bonds obviously are now a new tool that we can use in pursuit of that objective, I guess.

Moderator: And just want to, rebounding on what you say regarding integrated approach. Like is that also how the Province thinks long term about resiliency of their investment?

AW: Yeah, absolutely. So, the Province released earlier that note last year, sorry, we're now in 2024, but last year the provincial climate change impact assessment also tried to forecast what climate impacts the province would be feeling. And so, part of the work that's going on internally now is to help other ministries, even other stakeholders outside of government, such as municipal governments, to think about how they need to plan for the impacts of climate change. And what are the key areas for that, obviously, is how to think about making resilience, or building resilience essentially into infrastructure investments that the province or municipalities are carrying out. So, it's a big part, I think, of the infrastructure investment story that's going to go forward.

Moderator: Thank you! Switching gears to the social, the brand new 5 social categories. So, Elizabeth, what should we know about this expanded part of the Framework?

EW: Well, as anyone who has looked at the *Ontario Budget* will know the largest provincial expenses are in health care, education and children, community, and social services. That makes up 72% of total expenses, approximately. And so, what these five new social categories in the Framework will provide is scope for projects beyond those with environmental credentials to potentially be included in a bond issuance.

Moderator: That's great! And we've heard demand from investors interested in social bonds, quite an opportunity for them to do so in that you can issue social bond, so, any other changes that investors should look in the Framework?

EW: There's a few smaller changes besides the ones we've already highlighted. The new Framework does not include any explicit exclusions. It replaces a green bond advisory panel that we had with a sustainable bond advisory panel, and that panel now has a member coming from the OFA board of directors. It includes an illustrative impact matrix at the back of the Framework. So, it gives investors a little bit more detail on what kind of impact reporting will be done in different project categories. And it carries a Second-Party Opinion from Sustainalytics. So, a different Second-Party Opinion provider than we had on our first Framework. So those are some of the smaller changes that also go with this new Framework.

Moderator: The impact matrix is quite exciting, I think, because then we can talk about the actual environmental and social impact even before they buy the bond so they can make, investor can make the decision. So obviously Canadians are very familiar with Ontario's existing Green Bond Program you're the largest and most frequent issuer of Canadian dollar green bonds, having completed 14 green issues totaling 16.5 billion. So at the higher level, could you share the parameters that will carry forward from the old Framework into the new one?

EW: Sure. I'd like to highlight three specific things that remain unchanged. The first would be that the funding window for projects remains unchanged at 18 months. So, a look back period of six months, a forward period of 12 months. So, keeping that nice and tight. So, when investors invest in our green bonds, they can be assured that those funds will be disbursed in a fairly timely manner. The second thing that we're keeping the same is that the willingness to have the auditor, the office of the Auditor General come in and provide an annual audit that's going to continue on the annual impact reporting that we do through the publication of a newsletter on an annual basis that will also carry forward. And then the third thing would be that we will continue to identify the projects that we are going to be funding with any bond proceeds before we issue the bond. So, investors will have transparency, complete transparency into which projects the funds that are being raised are going to be disbursed towards. So, we feel that's a really important thing for investors to get all of that information up front so they can make an informed decision about whether or not to invest with Ontario in our Green Bond or Social Bond Program.

Moderator: Completely agree. Transparency, we've heard repetitively that there's a preference and desire to have visibility on what they would be investing into. So that increased visibility helps with diversification, picking up the bond and choice of investing. So quite good to have that. So, the new Framework includes thresholds in certain categories, how the different ministries and the Province have contributed to those and how should we think about whether there's different from the current thresholds that are currently in place?

EW: Maybe I'll start this one and then hand off to Alex. There was a great deal of collaboration on this Framework across the Ontario government going beyond the Ministry of Finance, the Ontario Financing Authority and the Ministry of Environment, Conservation and Parks. You can see the impact of this group effort when reviewing the second party opinion and the level of detail found there, including the thresholds that you mentioned, those thresholds there's you can see them throughout the different categories, clean transportation, green buildings, energy efficiency, clean energy. So again, sort of moving with the times, investors are looking for far more information upfront, far more transparency and just really those thresholds providing more guidance into what the thought processes at our end. And I would say while many of these criteria were informally used when evaluating projects for inclusion in our existing Green Bond Program, the new Framework just puts it all up front for everyone to see.

AW: Yeah, and just maybe to add a couple of things. One, in terms of the process, the subject matter expertise on any of these sectors typically resides in different parts of government. And so, OFA has done a great job of pulling in that expertise to try to understand where the threshold should be set. We've certainly been part of that process. The other side of this is, of course, the fact that the *Thresholds Act* is a bit of a guidepost for ministries that are considering projects, just how to think about and how to bring forward those kinds of projects with due regard to where those thresholds are going to be. So, it helps the internal process, the internal conversation around the project identification and selection as well.

Moderator: Yeah, that's quite interesting that it's almost like a two-way avenue, but like the design of the Framework being formed by the project and vice versa projects being informed by long-term thinking about decarbonization or social. Because I want to talk about the eligibility thresholds on the social side as well. So, we've heard regularly from your peers, from sovereigns observing the challenge to describe, a flexible yet clearly defined target population, which is a requirement for the double bond Framework. So, we know it's highly contextual, and Ontario is a very vast and diverse province. So curious how you address this challenge in the Framework.

EW: We worked really hard with the second-party opinion provider on this particular area of the Framework using terms like underprivileged, underserved, disadvantaged, those are labels that are relative, in any, in and as you said, contextual. So, what we have pledged to do is again, prior to bond issuance, when we're naming a project, if it's a social bond project that is being described, there will also be a description of what the target population for the program or project, what the target population is for that program or project so that investors can see whether it fits their definition. If they're looking to only invest in bonds that are supporting underprivileged, underserved, or disadvantaged. So, instead of putting the label upfront, we'll do it specifically project by project.

Moderator: Again, you know, like best practice, I guess, in terms of transparency, so, I'm sure that fits everyone's purpose in terms of selecting bonds to invest in. So, I think now the Framework is out. I guess the big question is what's your plan looking ahead, both from financing and also in terms of like broader strategy for your ministry, Alex. Maybe I'll start with you Elizabeth.

EW: Our plan subject to market conditions is to issue a green bond under the new Framework. It will be a new green bond line. And we would hope to get that done before our fiscal year end, which is March 31st. So, we've got our work cut out for us to get that done. And just to say also that are looking forward even beyond the next few months, Ontario has a \$185 billion infrastructure build out plan for the next ten years. And so, when you look at something like that, you have some confidence that this program has lots of runway ahead of it for sure. So, beyond the next few months, it looks like we'll have plenty to work with.

Moderator: Great! Across the different 15 categories now. And Alex, so what's looking ahead for the Ministry of Environment?

AW: Well, so our primary interest obviously is in the climate change objectives and goals that the government has set for the province and the role obviously that the green bond can play as a tool in the pursuit of those objectives. So, you know, the reduction of emissions in the province, we are on track to meet our 2030 target. But there's always work to be done in that area and always interesting projects to be funded. So, helping Elizabeth and her team identify those kinds of projects. On the resilience side, since you raised that quite appropriately. Thinking about how to integrate our understanding climate change impacts in the infrastructure and how that reflects essentially some of the investment opportunities and tools that we have, that's going to be a big part of our work going forward as well.

Moderator: Well, I'm excited that we're going to be meeting on target and that the Green Bond and Sustainable Bond Programs help with that in an integrated manner. So maybe I'd like to wrap up with two points that I thought it was quite interesting so that expanded breadth of investment that came from that collaborative approach that you mentioned and that integrated thinking about how the Province contributes to decarbonization to the value chain, also including social impacts that are usually intertwined with the environment and also that lending practices that Ontario has been showing up until now and continue to show is that increased transparency to provide enhanced visibility to investors. As for their upcoming environmental and social impact. So, I guess we'll stay tuned for the 15th Ontario Green Social Sustainability issuance and invite everyone who wants to know more about your Framework to go on the Ontario Financing Authority website. So, thank you very much. Elizabeth and Alex for joining me today.

EW: Thank you!

AW: Thank you!