



Finance Recruiting Seminar

Alberta School of Business
Department of Finance

Presents:

Federica Zeni

Imperial College London

Topic:

Optimal Design of Green Securities

Friday, January 28, 2022

10:30pm – 12:00pm

Zoom details located in the calendar invite.

If you are not a member of the Finance department and would like to attend, please contact Beth Boison (boison@ualberta.ca) for the Zoom meeting details.

ABSTRACT

We develop a model of green project financing which incorporates investors with green preferences into an otherwise standard framework of corporate financing with asymmetric information. Firms seek to finance green projects whose outcomes embed an uncertain component that is revealed only to the firm and which can be manipulated. Firms can raise funds using non-contingent green debt contracts, such as green bonds, that specify ex-ante the projects to be financed using the proceeds, but make no commitment to green outcomes. Alternatively, they can use outcome-based contingent contracts, such as sustainability-linked bonds, that do not impose restrictions on the use of proceeds but embed contingencies which incentivize commitment to outcomes. We demonstrate that the co-existence of the two green debt contracts is an equilibrium result when reported green outcomes are manipulable and firm types differ in their ability to manipulate. In the presence of asymmetric information about firms' type, non-contingent debt can be used as

an expensive signalling device, and we find empirically that contingent green debt securities have higher yields and are issued by more emissions intensive firms.