

TEG 101 - THE EU GREEN BOND STANDARD

A bedrock for market rules and integrity

CONTEXT, DEFINITIONS, KEY TAKEAWAYS, CORE COMPONENTS, ACCREDITATION REGIME

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To implement its Sustainable Finance Action Plan, the European Commission mandated a Technical Expert Group to come forward with a standard for green bonds. This EU Green Bond Standard (GBS) proposal report provides impressive efforts and interesting content on the background to how the TEG is analyzing and understanding the green bond market, including its barriers and its practices. The proposal's main outcome is a set of recommendations to the market on how to support and monitor the implementation of the EU GBS, and more importantly, ensure the market makes most use of it.

The EU GBS has been drafted to focus on two main objectives: **supporting the green bond market growth and promoting its transparency and integrity.**

An EU Green Bond is now defined as “any type of listed or unlisted bond or capital market debt instrument issued by a European or international issuer, defined as meeting the 3 following requirements:

1. Green bond framework;
2. Proceeds to green projects;
3. External verification.”

From a legal perspective, the TEG recommends implementing the EU GBS according to a two-step approach. Firstly, an initial adoption of a non-binding EU act, such as a Recommendation or a Communication, on voluntary basis. Then, monitoring the impact of the GBS implementation to consider possible legislation after an estimated period of up to 3 years.

We believe the transparency and integrity objectives are well addressed with this version of the EU GBS. However, the success of this initiative will only come from its wide adoption, albeit voluntary to start with. Hence, the report contains a **strong call to action for the entire market's stakeholders:** from issuers to investors as well as regulators, central banks & supervisors or banks.

With this publication, the second of our “TEG 101” series, Natixis Green and Sustainable Hub (GSH) intends to both raise awareness and enhance the understanding of the EU GSB proposal. Inside we share our key takeaways and provide an in-depth analysis of the EU GBS. In particular we compare it to the ICMA Green Bond Principles and observed market practices, and also offer our thoughts on the potential impact of the EU GBS on the existing and coming Green Bond market.

Transparency & Integrity

In our view, the EU GBS has met the transparency objective, especially by bringing **additional clarity to the definition of eligible Green Projects via the linkage to the EU Taxonomy.** The requirement to incorporate the Use of Proceeds within the legal documentation will also contribute to enhanced transparency and accountability on the issuance of EU Green Bonds.

By defining Green Projects as taxonomy-aligned projects, **the TEG turns the EU Taxonomy into the cornerstone of the EU GBS, placing integrity as a key principle behind EU GBs.** We also welcome, through the EU Taxonomy, the formal integration of any associated environmental and social risks along with the need to mitigate externalities in particular the Do No Significant Harm & Social safeguards sections.

However, we are **concerned that the expected level of stringency in eligibility metrics & thresholds are likely to harm the growth objective for the green bond market** while preserving its very necessary integrity. Having said that, there is still substantial room for interpretation. In particular, the “Do no Significant Harm” application and/or when activities not yet covered by the Taxonomy and/or for its usability at the asset level.

In our [earlier handbook on the EU Taxonomy](#), we extensively commented the stringency of the proposed thresholds, and how far they often are from market practice and observed industrial performance levels. We would probably argue that the newly added (and very welcome) definition of “transitioning” activities” approach is very (too) narrow, long sighted and demanding and could allow for a more progressive approach to thresholds (and thus eligibility criteria) over the next decade. Though, one should not lose sight of the purpose of the EU Taxonomy: define environmentally sustainable activities which would underline sustainable financing / investing products, set standards and regulations, as well as the needed disclosure to design them. Essentially, eligible activities are defined as those allowing for carbon neutrality in 2050.

Ultimately, the EU GBS is making the call that an EU GB should be financing green activities as defined by the EU Taxonomy, though not taking any stance on whether activities falling outside the taxonomy deserve, or not, financing overall. In that context, stringency is what we expect from the EU Taxonomy, as it aims to preserve the integrity of Sustainable Finance; a lack of which is the main risk to its development.

What is new about the EU GBS ?

The ICMA Green Bond Principles are very clearly embedded within the EU GBS(four components, Green bond framework etc.).**The key evolution relies on the prescriptive nature of some of the key characteristics of the EU GBS:** most of GBP recommendations are turned into actual requirements, especially for explicit alignment with issuer's strategy, mandatory reporting of both allocation and impacts, bond by bond reporting, pro-rated share of impact, financing vs refinancing disclosure, and mandatory verification.

At the same time we clearly notice the **attempts of the EU GBS to address some of the criticisms (or actual market practices) repeatedly expressed by market participants.** Namely: administrative burden, type & characteristics of eligible assets, equivalence demonstration in the management of proceeds, one-off reporting, no look back period for capex, selected opex/public investments & subsidies, open door to Green Liability Management, etc.

In particular, we welcome the expected **alignment of the Green Bond environmental objectives with the issuer's strategy and rationale.** This is, in our view, of the utmost importance to demonstrate consistency and evidence of an issuer transition pathway. However, we regret the choice not to go one step further in the issuer level scrutiny of the EU GB issuance process. We would have supported the formal integration of some **issuer level ESG performance considerations**, or at least transparency in the EU GB documentation, which we view as a relevant proxy for the ability and credibility of an issuer to deliver on their green projects. Similarly, while the mandatory pre and post issuance reporting is very much welcome and in line with market practices, we would have welcomed mandatory impact reporting until bond maturity to ensure a sustained dialogue and accountability between bondholders and issuers as well as some reference to ex-ante/ex-post impact measurement.

One of the key add-ons of the EU GBS relate to the mandatory pre and post issuance verification by accredited external reviewers.

We welcome the proposed mandatory verification by an EU accredited external reviewer, pre and post issuance. The accreditation process is likely to, progressively (until EU Taxonomy completion), drastically alter, if not "kill", the

current SPO format and turn an external review mission into a pure verification model leading to an evolution of the external reviewer landscape in favor of auditors.

However, the publication of the EU GBS ahead of a finalised EU Taxonomy¹, as well as the room for interpretation left in the Do No Significant Harm & Social Safeguard criteria, are good reasons to think that there is still quite some time before we reach that pure verification model for external reviewers. In the interim, external verifiers (or Second Party Opinion providers) will be required to bridge the gaps of the EU Taxonomy in terms of coverage and integrity assessment.

Here at Natixis, we have always been strong advocates of the need for common language as well as clear and common rules of the game. Against this backdrop, we welcome this new EU GBS proposal which we believe is aligned with both the ICMA GBP and best market practices. It is introducing a number of very welcome clarifications and has settled a great number of the debated features of green bonds, striking a balance between easing up on some market practices and tightening up others by means of prescriptive requirements.

If we allow ourselves to be picky, beyond our comments on the EU Taxonomy itself (becoming here the eligibility criteria), some clarifications are still expected, such as: cash management, proceeds recycling rules, allocation period, conditions under which green liability management is allowed, applicability of the EU GBS outside the EU (for both issuers and projects), especially for the Do No Significant Harm criteria.

Last but not least, the timing of its publication (i.e. ahead of the full EU Taxonomy completion) will lead to some level of confusion and uncertainty when it comes to compliance process, scope of certification, timeline, and above all usability. But one needs to start somewhere and this is a sound and useful start.

¹ i.e. the wide amount of GBP eligible categories and NACE activities yet to be covered by the EU Taxonomy, where the screening criteria becomes "*substantial contribution to one or more environmental objective*"

EU Green Bond Standard (GBS): What is it?

Context

In line with the European Commission 2018's "Action Plan on Financing Sustainable Growth", the Technical Expert Group (TEG) published 4 reports in June 2019:

- EU Taxonomy of environmentally sustainable economic activities
- EU Green Bond Standard
- Climate benchmarks and benchmarks' ESG Disclosures
- Guidance to improve corporate disclosure of climate-related information

Legal status & Governance

A two-step approach:

- Initial adoption of a non-binding EU act, such as a Recommendation or a Communication, on a voluntary basis
- Monitoring impact of the GBS implementation and consideration of further supporting action including possible legislation after an estimated period of up to 3 years

The EU Platform on Sustainable Finance should supervise and monitor the GBS implementation.

EU Green Bond Standard proposal

- Contribute to the EU's sustainable finance policy objectives
- Provide a rationale for action and explain why and how such a standard should be developed and implemented to both support the green bond market growth and promote its transparency and integrity
- Propose a standard and templates for Green Bond Framework (GBF) and Reporting

TEG Report on EU Green Bond Standard (79 p.)



- Rationale of EU GBS
- Proposal for EU GBS around 4 core components with draft model
- Accreditation regime for verifiers
- Potential incentives
- Templates (GBF and reporting)

New definition of an EU Green Bond



An EU Green Bond is any type of listed or unlisted bond or capital market debt instrument issued by a European or international issuer, defined as meeting the 3 following requirements

- 1 Green Bond Framework**
The issuer needs to explicitly affirm the alignment with the EU-GBS
- 2 Proceeds to Green Projects**
Will finance or re-finance "Green Projects"
- 3 External Verification**
Alignment with the EU-GBS is verified by "an accredited External Verifier"

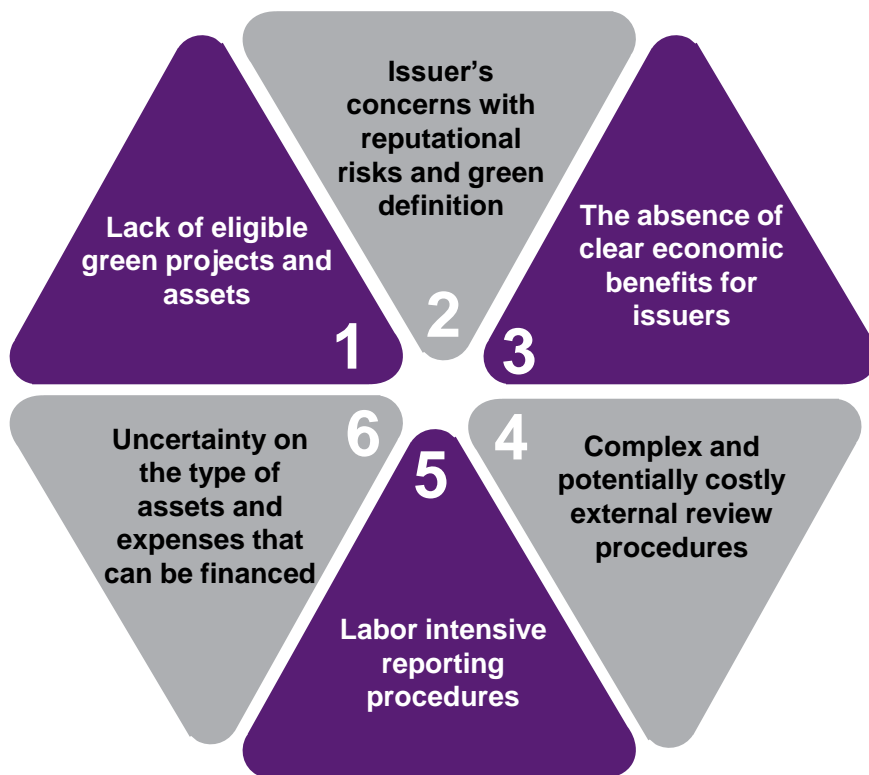
Objectives of the proposed EU Green Bond Standard

A problem-solving approach

6 barriers to green bond market development identified by the TEG



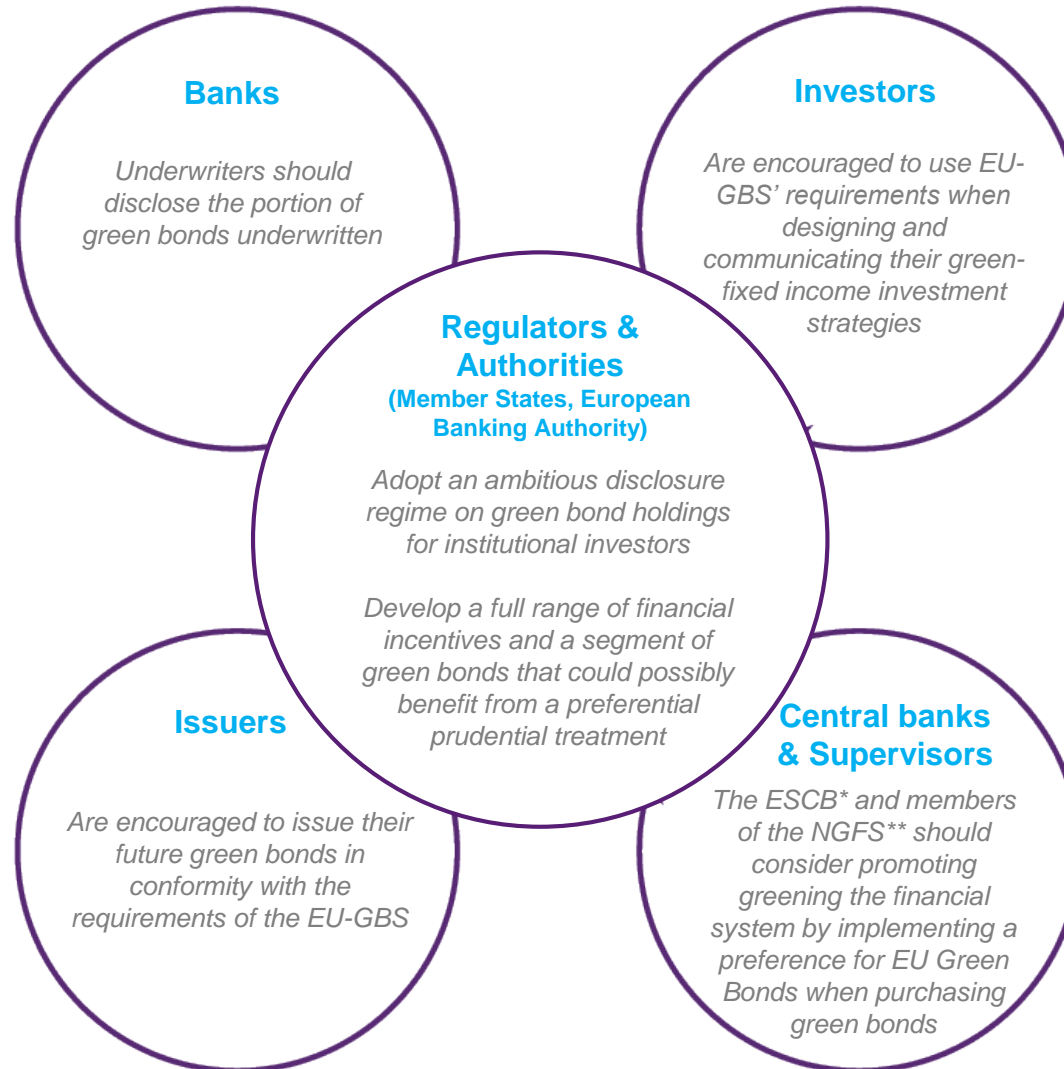
TEG's proposal:
Addressing these barriers



- 1 The EU-GBS builds on the proposed Taxonomy Regulation to **clarify** and potentially **expand** the universe of **eligible Green Projects**
- 2 The EU-GBS builds a **robust accreditation scheme** for External Verifiers and clarifies their roles to verify green definitions. Reporting is expanded and standardized
- 3 The EU-GBS lays the basis for policy-makers to design policies and instruments to **incentivize green bond issuance**: potential **subsidies** to offset verification costs
- 4 Standardized verification with a clear scope is expected to **streamline the process, avoid duplication** of efforts and **reduce costs of external reviews**
- 5 **Only one Allocation Reporting** is possible for Green Bonds Program with **several bond issuances under the same Green Bond Framework**
- 6 The EU-GBS defines and broadens the scope of **eligible expenditures** to relevant fields: **R&D costs, operating expenditures or working capital related to green assets**

Call for action on the entire ecosystem

Set of potential incentives concerning all green bond market participants

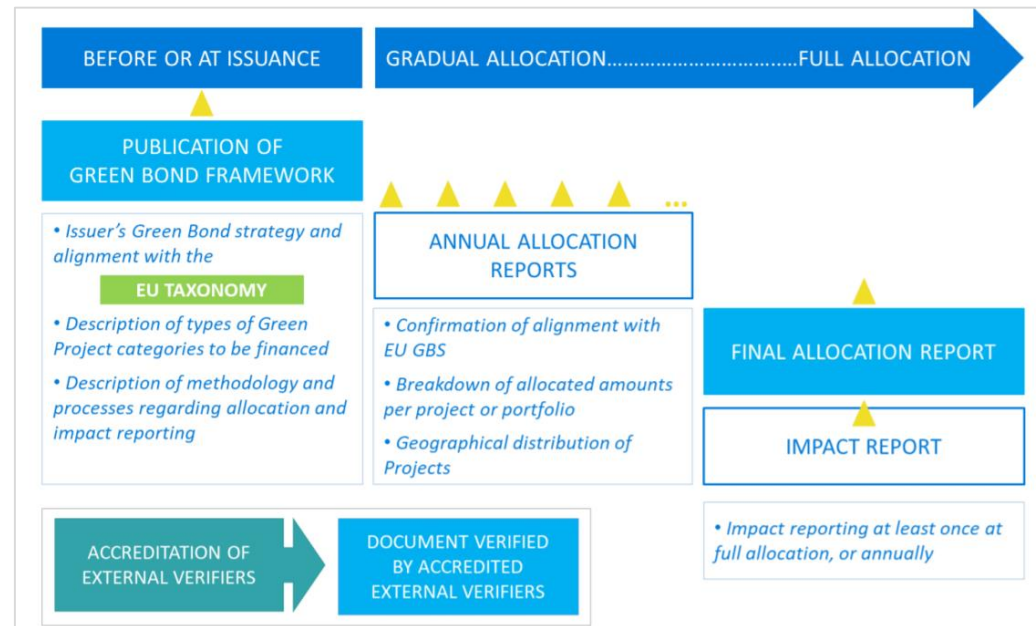


Overview of the proposed EU Green Bond Standard

Key takeaways: What's new? What is missing?

What is new ?

- Clarification of green project definition and type of eligible assets & expenditures as well as look back periods
- Use of Proceeds (UoP) should be specified in the legal documentation
- Alignment with the market practice on tracking by equivalent amounts
- Creation of two kinds of reporting: Allocation Reporting (verification required) & Impact Reporting (verification encouraged)
- Impact reporting required per Green Bond with the respective ISIN stated, using pro-rated share
- Mandatory verification both before and after the issuance
- Proving safeguards for external verifiers through an accreditation scheme



What is missing ?

- Issuer level ESG performance and/or commitments
- Clarification on Management of proceeds requirements such as: allocation period, recycling policy, Cash management of proceeds pending allocation, green liability management
- Requirements or recommendations related to ex-ante vs ex-post impact reporting

Overview of the proposed EU Green Bond Standard

Core components

Definition of Green Projects

Taxonomy alignment, i.e. substantial contribution to the Environmental Objectives, “Do-No-Significant Harm”, social safeguards, and technical screening criteria (i.e. principles, metrics and thresholds)

Type of eligible expenditures and look-back period

1

Green Bond Framework

Describing objectives, Green Projects to be financed, processes and methodologies on allocation, reporting and impact calculation

*Green Bond Framework
Template provided*

2

Mandatory verification

By an **Accredited External Verifier** of:

- Green Bond Framework alignment, before or at the time of issuance
- Allocation reporting, after full allocation of proceeds

Verification of the Impact Reporting is encouraged

4

3

Mandatory reporting on:

- **Allocation**, incl. allocated amounts and geographical distribution, at least annually, until full allocation
- **Impact**, incl. description of projects and environmental metrics, at least once during bond lifetime after full allocation

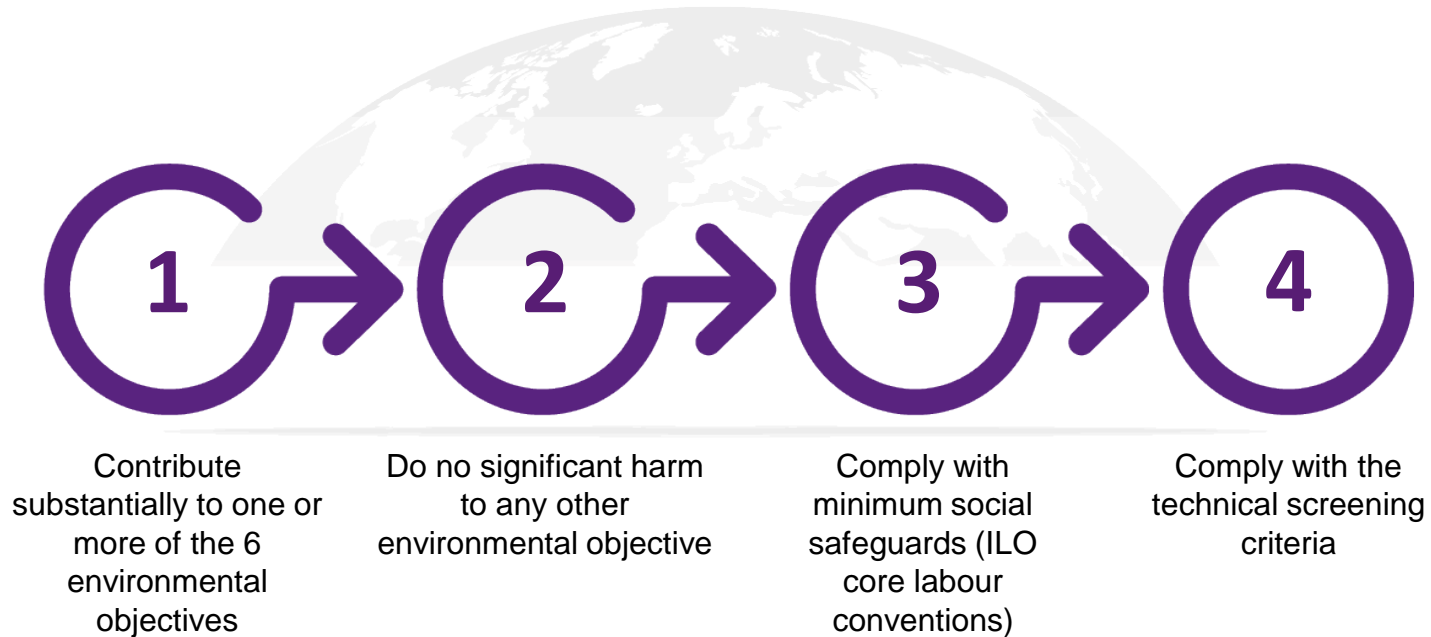
Reporting templates provided



Taxonomy is at the heart of EU GBS projects' eligibility definition



To be taxonomy-eligible, a project/asset must comply with the system's 4 fundamental principles





Out of 6 environmental objectives, solely 2 have been reviewed to date

The first delegated act under the Taxonomy will focus on **climate change mitigation and adaptation activities**. In later steps, it is planned to **address other environmental aspects** (e.g. protection of health ecosystems) and finally **social and ethical aspects**.



Substantial contribution to climate change mitigation* :

- a) generating, storing or using renewable energy or climate-neutral energy (including carbon-neutral energy), including through using innovative technology with a potential for significant future savings or through necessary reinforcement of the grid;
- b) improving energy efficiency;
- c) increasing clean or climate-neutral mobility;
- d) switching to use of renewable materials;
- e) increasing carbon capture and storage use;
- f) phasing out anthropogenic emissions of GHG, including from fossil fuels;
- g) establishing energy infrastructure required for enabling decarbonisation of energy systems;
- h) producing clean and efficient fuels from renewable or carbon-neutral sources.

* As defined by the Article 6 of the proposed Regulation “On the establishment of a framework to facilitate sustainable investment” (May 2018) Available [here](#). **We regret that this concept of substantial contribution is neither defined nor framed in a sense allowing to differentiate what is incremental & BaU versus transformative and game-changing.**



“Do no significant harm assessment” criteria in this 2nd round rely more on EU environmental regulation



The “do no significant harm assessment” (DNSH) section is more specific and relies more on existing regulation.

For reportedly around **70% of DNSH criteria, compliance with the Taxonomy can be demonstrated through compliance with EU environmental legislation.** This can be assessed at company or site-level.

Illustrations of the regulations referred to for the DNSH criteria

Pollution

- BATAEL ranges set in the BREF for the Large Combustion Plants and Medium Combustions Plants Directive
- Principles of IFC General EHS Guideline
- Compliance with the REACH Regulation and the RoHS (Restriction of Hazardous Substances) Regulation
- National Emission Ceilings Directive (EU) 2016/2284
- Regulation 1304/2014 Noise TSI : for noise and vibrations of rolling stock

Water

- Chemical and ecological status : Directive 2000/60/EC
- Water Framework Directive and Bathing Waters Directive

Circular economy

- Compliance with Directive 2000/53/EC ("End-of-life of vehicles Directive")

Ecosystems:

- IFC Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources (2018)
- EU Habitats and Birds Directives



Compliance with minimum safeguards is a condition for economic activities to qualify as environmentally sustainable

The TEG's June Report states that investors using the taxonomy are expected to “Conduct due diligence to avoid any violation to the social minimum safeguards stipulated in the Taxonomy regulation (article 13)”.

What will be expected from investors (or their data providers) regarding their investees:



International Labour Organization : “if and how they comply with ILO Conventions”



- The right not to be subjected to forced labour
- The freedom of association
- Workers' right to organize
- The right to collective bargaining



Activities covered by technical screening criteria

Agriculture and Forestry

- Growing of perennial crops
- Growing of non-perennial crops
- Livestock production
- Afforestation
- Rehabilitation, Restoration
- Reforestation
- Existing forest management

Manufacturing

- Manufacturing of low carbon technologies
- Manufacture of Cement
- Manufacture of Aluminium
- Manufacture of Iron and Steel
- Manufacture of hydrogen
- Manufacture of other inorganic basic chemicals
- Manufacture of other organic basic chemicals
- Manufacture of fertilizers and nitrogen compounds
- Manufacture of plastics in primary form

Electricity, gas, steam and air conditioning supply

- Production of Electricity from Solar PV
- Production of Electricity from Concentrated Solar Power
- Production of Electricity from Wind Power
- Production of Electricity from Ocean Energy
- Production of Electricity from Hydropower
- Production of Electricity from Geothermal
- Production of Electricity from Gas Combustion
- Production of Electricity from Bioenergy
- Transmission and Distribution of Electricity
- Storage of Energy
- Manufacture of Biomass, Biogas or Biofuels
- Retrofit of Gas Transmission and Distribution Networks
- District Heating/Cooling distribution
- Installation and operation of Electric Heat Pumps
- Cogeneration of Heat/Cool and power from Concentrated Solar Power
- Cogeneration of Heat/Cool and power from Geothermal Energy
- Cogeneration of Heat/Cool and power from Gas Combustion
- Cogeneration of Heat/Cool and power from Bioenergy
- Production of Heating and Cooling from Concentrated Solar Power
- Production of Heating and Cooling from Geothermal Energy
- Production of Heating and Cooling from Gas Combustion
- Production of heating and cooling from Bioenergy
- Production of Heating and Cooling using Waste Heat

Water, Waste and Sewerage remediation

- Water collection, treatment and supply
- Centralized wastewater treatment systems
- Anaerobic digestion of sewage sludge
- Separate collection and transport of non-hazardous waste in source segregated fractions
- Anaerobic digestion of bio-waste
- Composting of bio-waste
- Material recovery from waste
- Landfill gas capture and energetic utilization
- Direct Air Capture of CO₂
- Capture of anthropogenic emissions
- Transport of CO₂
- Permanent Sequestration of captured CO₂

Information and Communication Technologies (ICT)

- Data processing, hosting and related activities
- Data-driven solutions for GHG emissions reductions

Transport

- Passenger Rail Transport (Interurban)
- Freight Rail Transport
- Public transport
- Infrastructure for low carbon transport
- Passenger cars and commercial vehicles
- Freight transport services by road
- Interurban scheduled road transport
- Inland passenger water transport
- Inland freight water transport
- Construction of water projects

Buildings

- Construction of new buildings
- Renovation of existing buildings
- Individual renovation measures, installation of renewable on-site and professional, scientific and technical activities
- Acquisition of buildings

Type of eligible expenditures and look-back period

Green projects can include



Any **capital expenditure** and **selected operating expenditure** such as **maintenance costs** related to green assets and **R&D costs**.

Operating costs such as purchasing and leasing costs would not be eligible (except in cases identified in the EU Taxonomy).







Look-back period for refinancing

- Green assets shall qualify **without a specific look-back period**.
- Eligible green operating expenditures shall qualify for refinancing with a **maximum 3-year look-back period** before the issuance of the bond.

Physical assets and **financial assets** such as **loans** (tangible or intangible), and share of working capital that can reasonably be attributed to their operation is included.

Relevant **public investments** and **public subsidies** for sovereigns and sub-sovereigns.

Green Projects eligibility: in-depth analysis (1/3)




		EU GBS - June 2019	Significant change vs March 2019	GBP / SBP	Observed Market Practice
Type of eligible assets & expenditures		<ul style="list-style-type: none"> - Physical and financial assets (tangible or intangible), incl. the share of working capital that can reasonably be attributed to their operation - Any CapEx and selected OpEx such as maintenance costs related to green assets and R&D costs - Operating costs (purchasing costs and leasing costs) would NOT normally be eligible except cases identified in the EU Taxonomy - Public investments and subsidies for sovereigns and sub-sovereigns 	Type of eligible assets & expenditures have been specified: <ul style="list-style-type: none"> - eligible green OpEx were related to improving or maintaining the value of eligible assets - eligible green expenditures from SSA were not detailed 	Almost all green bond issuers only (re)finance green assets / capex Partially addressed in the Q&A - Other expenditures related to or in support of eligible green projects, as long as those are associated with clear environmental benefits, may be included	Globally limited to Physical and financial assets and CapEx.
Look back period		<ul style="list-style-type: none"> - No look-back period for assets - Maximum 3 years look-back period for OpEx 	N/A	Not defined - disclosure of the expected look-back period is recommended	Between 2-3 years look-back period for assets and CapEx
Green Liability Management		Not clearly defined - Green financing instruments can be refinanced by other green financial products	N/A	Not clearly defined - GBP welcome issuers to buy back Green, Social or Sustainability Bonds with proceeds of a new Green, Social or Sustainability Bond in the context of the issuer's market operations and/or in the case of a shortfall of Eligible Projects	No relevant track record to evaluate market practice

Green Projects eligibility: in-depth analysis (2/3)

Comments:

- Precision of inclusion of both tangible and intangible physical and financial assets, and of maintenance and R&D costs is appreciated, while *relevant public investments and subsidies* for sovereigns and sub-sovereigns is unclear.
- We support the decision to avoid look-back period on assets, since the 3-year market practice was rather arbitrary considering re-financing is allowed. What really matters is the remaining (unamortized ? Impact delivering ?) period of a given asset and should be the relevant indicator to calibrate the eligible look back.
A discussion on how to calibrate look back would be welcome.
- Though, financing should be encouraged, alongside more directly additionality.
- While the EU GBS clearly allows for a green bond to be refinanced by another green bond, we wonder whether EU GBS should not frame the conditions under which this should happen. Earmarking in the new green instrument an eligible asset which was used in the original green bond seems acceptable, we would though welcome clarification on the amount to be considered eligible (i.e. full initial book value, outstanding value / un-amortized value, which duration between economic and accounting depreciation).

Green Projects eligibility: in-depth analysis (3/3)

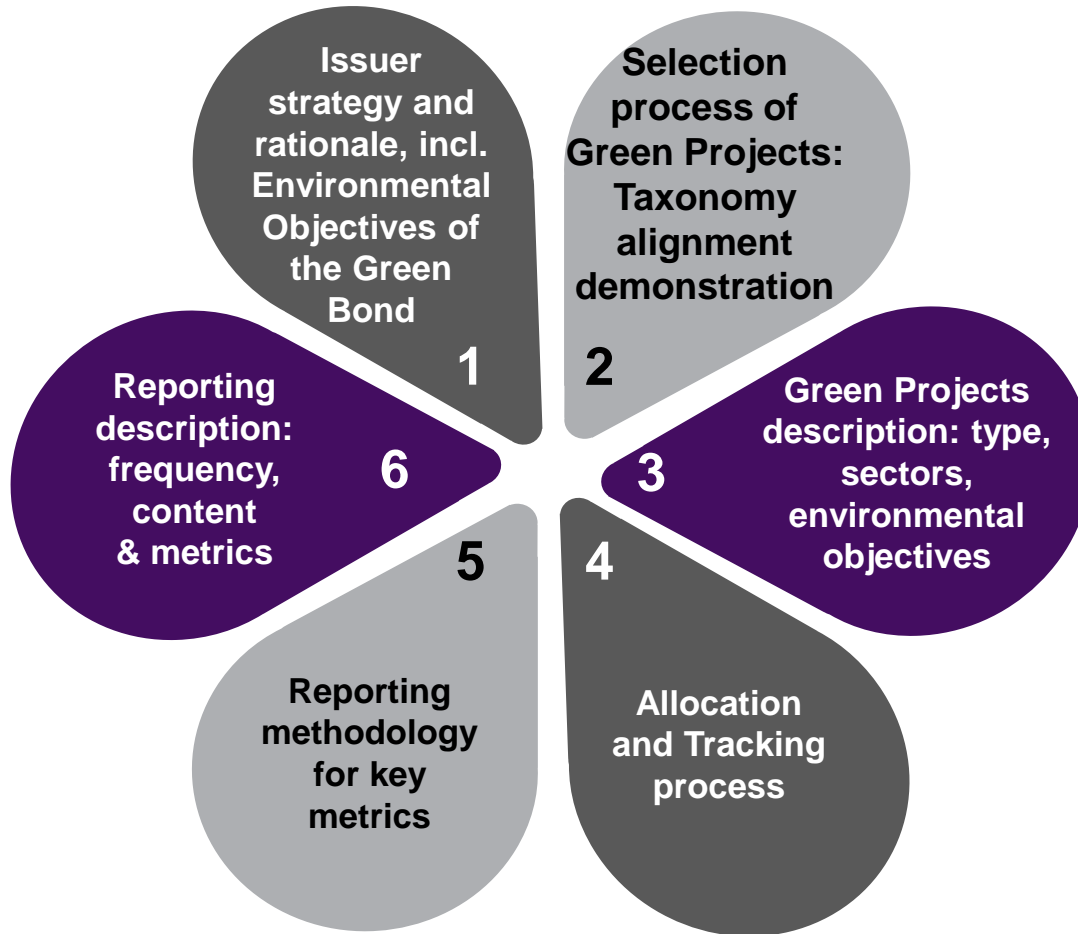
		EU GBS - June 2019	Significant change vs March 2019	GBP / SBP	Observed Market Practice
Eligible project fundamental principles		Taxonomy alignment, i.e. (i) substantial contribution to the Environmental Objectives (ii) Do-No-Significant Harm (iii) Social safeguards, and (iv) Technical screening criteria (i.e. principles, metrics and thresholds) if and when they are defined by the EU Taxonomy	N/A	- Green Projects should provide clear environmental benefits and contribute to environmental objectives - eligibility criteria include exclusion criteria or any other process applied to identify and manage potentially material environmental and social risks associated with the projects	Reference to existing standards and taxonomies (such as GBP / SBP, CBI standard, labels and accreditations for a specific sector) and/or development of own framework, criteria and sometimes thresholds
Eligible projects' categories		67 activities covered by the EU Taxonomy , detailing the metrics and thresholds under which they would be eligible, split in 8 sectors: - Agriculture - Forestry - Manufacturing - Electricity, gas, steam, air conditioning supply - Water, sewerage, waste and remediation - Transportation - Information and communication - Construction, Real estate activities	Development or finalizing the screening criteria for an additional 43 activities As of March 2019, linked with the previous version of the EU Taxonomy launched in December 18 covering only 24 activities (incl. 14 activities not yet finalized)	Indicative list of broad project categories: - renewable energy - energy efficiency - pollution prevention and control - environmentally sustainable management of living natural resources and land use - terrestrial and aquatic biodiversity conservation - clean transportation - sustainable water and wastewater management - climate change adaptation - eco-efficient and/or circular economy adapted products, production technologies and processes - green buildings	Almost all green bond issuers rely on the GBP project categories and/or on CBI standards and technical criteria According to our market data monitoring, around 30% of UoP are not climate-related (water and wastewater management, pollution prevention, biodiversity and land use)

Comments:

- Good to have a definition of Green Projects, but there is still substantial room for interpretation, especially for activities not covered yet by the Taxonomy or when “specific cases” mentioned in the GBS are considered.
- Highly linked to the Taxonomy itself: unprecedented efforts allowed to deliver a sort of “encyclopedia” of sustainability, with significant usability improvements compared with last version. The sectorial coverage has been tremendously extended, even though a few sensitive ones are still lacking, namely mining, energy efficiency, aviation or maritime transport...and the activity-centered approach could be an hurdle for practicality given the asset / project level in Green Bonds.

Green Bond Framework

A document covering the alignment with the taxonomy, project selection and reporting commitments



Annex 2: EU Green Bond Framework Template

Date: Click or tap to enter a date.

Issuer name: Click or tap here to enter text.

Green Bond Framework name: Click or tap here to enter text.

External Verification provider name: Click or tap here to enter text.

Section 1: Strategy and rationale

Information in this Section relates to Annex 1 (Draft Model EU GBS), section 4.2 Green Bond Framework, point 1. NB: the use of proceeds needs to be specified in the legal documentation.

1.1. Please describe your Environmental Objectives as part of your overall strategy and the reasoning for issuing a green bond

Click or tap here to enter text.

1.2. Which environmental objectives of EU Taxonomy regulation? Select all that apply

- Climate Change Mitigation
- Climate Change Adaptation
- Sustainable use and protection of water
- Transition to a circular economy, waste
- Pollution prevention and control
- Protection and/or promotion of health

1.3. (Voluntary section) In the section where (sources and/or documents) objective(s) and/or strategy relate(s) to

International commitments include, for example, Sustainable Development Goals, etc.

Click or tap here to enter text.

1.4. Please record any additional information

Click or tap here to enter text.

Section 2: Process for selection of Green Projects

Information in this Section relates to Annex 1 (Draft Model EU GBS), section 4.2 Green Bond Framework, point 2. This section generally aligns with the "Process for project evaluation and selection" component of the GBP promoted by ICMA.

2.1. Please describe the governance process to ensure alignment of each Green Project with the EU Taxonomy: (1) substantial contribution to environmental objectives, (2) do-no-significant-harm to environmental objectives, (3) minimum social safeguards and where developed (4) meeting the technical screening criteria.

For example, use of committees, internal/external environmental expertise, exclusion criteria, eligibility principles, metrics and thresholds, methodologies, standards or certifications.

Click or tap here to enter text.

2.2. Please record any additional information that may be relevant to this section:

Click or tap here to enter text.

Section 3: Green Projects

Information in this Section relates to Annex 1 (Draft Model EU GBS), section 4.2 Green Bond Framework, point 3 and 4. This section generally aligns with the "Use of proceeds" component of the GBP promoted by ICMA. Please provide in this section the description of your Green Projects and how they align with the EU Taxonomy.

3.1. Please describe the projects / project categories financed by the green bond proceeds, the relevant economic activity under the Taxonomy, and NACE code if available. Please refer to the EU Taxonomy (link to website) for further details. For example, for the construction of wind farms, there can be several economic activities that apply. In this case, for example, the relevant activity is the production of electricity from wind power (NACE code 35.11).

Click or tap here to enter text.

3.2. If available, please record the indicative list of Green Projects / activities financed by the green bond proceeds. If available, please supplement this information with the relative estimated proceeds allocation per Green Project category or asset class.

Click or tap here to enter text.

3.3. Please record any additional information that may be relevant to this section:

Click or tap here to enter text.

Section 4: Tracking of amounts of Use-of-Proceeds

Information in this Section relates to Annex 1 (Draft Model EU GBS), section 4.2 Green Bond Framework, point 5. This section generally aligns with the "Management of Proceeds" component of the GBP promoted by ICMA.

EU Green Bond Framework Template provided in appendix of the report



Green Bond Framework can capture several bond issuances but also other products

Green Bond Framework: in-depth analysis (1/2)



		EU GBS - June 2019	Significant change vs March 2019	GBP / SBP	Observed Market Practice
Content of the Green Bond Framework (GBF)		<p>The GBF must include:</p> <ol style="list-style-type: none"> 1. Environmental Objectives of the Green Bond and how the issuer's strategy aligns with 2. The evaluation and selection process with regards to the EU Taxonomy, 3. A description of the Green Projects to be financed or refinanced 4. The allocation and tracking process, 5. Methodology and assumptions to be used for the calculation of key impact metrics, 6. A description of the Reporting (e.g. envisaged frequency, content, metrics). <p>GBF template is provided in appendix</p>	Same content required but previously organized in 5 components	<p>Alignment four core components of the GBP:</p> <ol style="list-style-type: none"> 1. Use of Proceeds 2. Process for Project Evaluation and Selection 3. Management of Proceeds 4. Reporting 	GBF are usually aligned with the four core components of the GBP.
Explicit alignment with issuer's strategy		Required - Issuer's environmental objectives as part of its overall strategy (demonstration of alignment) should be described in the GBF	N/A	Recommended - issuers are encouraged to position the green bond within the context of the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability	Overall consistency between issuer's corporate environmental strategy and alignment with corporate objectives is usually described in the introductions of GBFs
Issuance rationale		Required - Issuer's rationale for issuing a green bond should be described in the GBF	N/A	Not addressed	Issuance rationale is commonly described in the GBF

Comments:

- Requirement to have an explicit alignment with issuer's strategy and a presentation of the issuer's environmental strategy and its rationale for issuing green bonds is really appreciated.
- However, requirements related to the issuer level ESG performance are missing, whereas the observed market practices clearly indicate that most of investors need a minimum ESG (external and/or internal) rating (according to our investor survey, 56% of respondents need a minimum ESG rating).

Green Bond Framework: in-depth analysis (2/2)

		EU GBS - June 2019	Significant change vs March 2019	GBP / SBP	Observed Market Practice
Governance	😊	<p>Description of the governance process (incl. use of committees, internal/external environmental expertise, exclusion criteria, eligibility principles, metrics and thresholds, methodologies, standards or certifications) required in the GBF</p> <p>The environmental and social risks and externalities related to the eligible projects can be considered addressed in the EU Taxonomy Do No Significant Harm & Social safeguards sections</p>	<p>Not clearly defined - Description of process by which the issuer determines how Green Projects align with the EU Taxonomy was required in the GBF</p>	<p>Required description of the Process for Project Evaluation and Selection, i.e.</p> <ul style="list-style-type: none"> - the environmental sustainability objectives - the process by which the issuer determines how the projects fit within the eligible categories; - the related eligibility criteria, including, exclusion criteria or any other process applied to identify and manage potentially material environmental and social risks associated with the projects 	<ul style="list-style-type: none"> - Green bond issuers generally create a Green Bond committee in charge of defining, selecting and validating eligible green projects, according to a process defined in their GBF (more or less included in the existing lending or investment process) - Process used to identify and manage potentially material environmental and social risks associated with the projects is generally defined at corporate level, applying for all eligible green projects
Management of proceeds	😐	<p>Tracking focuses on equivalent amounts allocated to Green Projects (no segregation of bond proceeds required)</p>	N/A	<ul style="list-style-type: none"> - Proceeds should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner, and attested to by the issuer in a formal internal process. - Balance of the tracked net proceeds should be periodically adjusted to match allocations to eligible projects - Disclosure of intended types of temporary placement for unallocated proceeds. - Recommend high level of transparency 	<ul style="list-style-type: none"> - Proceeds, considering them fungible, are generally managed within issuer treasury (no segregation) with internal tracking method defined in the GBF - Balance of the tracked net proceeds generally done annually - Disclosure of intended types of temporary placement for unallocated proceeds in GBF - Issuers generally define their commitment in case of project removal from green portfolio (divestment, ineligibility, etc.)

Comments:

- Requirements in terms of management of proceeds have been simplified and are consistent with market practices regarding equivalence demonstration, although several considerations are not addressed, such as cash management (management of proceeds pending allocation), proceeds recycling rules, allocation period.

Focus on Mandatory Reporting

Allocation Reporting

Impact Reporting

WHAT?

- A statement of **alignment with the EU-GBS**
- A **breakdown of allocated amounts to Green Projects** at least at sector level – more detailed reporting is encouraged
- The **regional distribution of Green Projects** (recommended at country level)

- A **description of the Green Projects**
- The **Environmental Objective pursued** with the Green Projects
- A **breakdown of Green Projects** by the nature of what is being financed (assets, Capex, Opex, etc.)
- **The share of financing vs refinancing**
- Information and, when possible, **metrics about the projects' environmental impacts**, which needs to be in line with the commitment and methodology described in the Issuer's GBF
- Unless already detailed in the GBF, information on the methodology and assumptions used to evaluate the Green Project impacts

WHEN?





At least **annually**, until full allocation and thereafter, in case of any material change

At least **once during bond lifetime** after full allocation and thereafter, in case of material changes.



“Allocation and Impact Reporting shall be **published on the issuer's website** or any **other communication channel**. The Green Bond Framework (GBF), Final Allocation Report and Impact Report published upon full allocation **shall remain available until maturity of such EU Green Bonds**, unless replaced by further reports in case of material changes of allocation.”

Mandatory reporting: in-depth analysis (1/3)

		EU GBS - June 2019	Significant change vs March 2019	GBP / SBP	Observed Market Practice
ALLOCATION REPORTING					
Frequency? When & Until when?		At least annually, until full allocation and thereafter, in case of any material change	N/A	Up to date information to be renewed annually until full allocation, and on a timely basis in case of material developments	Annually, until full allocation and thereafter, in case of any material change
Verification		- Required for the Final Allocation Report - Voluntary for each annual allocation report	N/A	Recommended	Done by most green bond issuers (According to our market data monitoring, around 60% use third opinion)
Content		The Allocation Report shall include: - A statement of alignment with the EU-GBS - A breakdown of allocated amounts to Green Projects at least on sector level - The geographical distribution of Green Projects (recommended on country level)	Distinction between Allocation reporting and Impact reporting - previously merged	The annual report should include a list of the projects to which Green Bond proceeds have been allocated, as well as a brief description of the projects and the amounts allocated.	Allocation report generally includes: - list of projects financed (when feasible) - amount of allocated proceeds with split by type of assets / activities and by geography - examples of projects financed

Comments:

- The considerations for “material change” in the need to report on allocation until the bond maturity is still confusing.
- Need for clarification on the integration of proceeds allocation and tracking in the scope of verification.
- As far as possible, the list of projects to which Green Bond proceeds have been allocated, with brief description of at least emblematic projects, should have been included in the expected content







Mandatory reporting: in-depth analysis (2/3)

		EU GBS - June 2019	Significant change vs March 2019	GBP / SBP	Observed Market Practice
IMPACT REPORTING					
Frequency? When & Until when?	☹️	At least once during bond lifetime after full allocation and thereafter, in case of material changes.	At least annually, until full allocation and thereafter, in case of any material change.	Up to date information to be renewed annually until full allocation, and on a timely basis in case of material developments	Annually, until full allocation and thereafter, in case of any material change, or until maturity in 50/50
Pro-rated share of impacts	😊	Only the pro-rated share of impact (share of financing) must be reported	N/A	Issuers are encouraged to report the prorated share of the overall results	Mix of practices
Quali. vs Quanti. assesment ? Methodology disclosure	☹️	<p>- Quantitative impacts, and qualitative impacts where reporting on quantitative impact is not feasible.</p> <p>- Information on the methodology and assumptions used for impact evaluation required in the report</p> <p>Required metrics are available in the EU Taxonomy. Impact reporting template are provided in appendix.</p>	<p>- Actual or estimated environmental impact of the Green Projects, quantitative metrics wherever possible</p> <p>- Information on methodology and assumptions applied</p>	<p>Recommended</p> <p>- use of qualitative performance indicators and, where feasible, quantitative performance measures</p> <p>- disclosure of the key underlying methodology and/or assumptions used in the quantitative determination.</p> <p>The GBP offers suggestions for best practice in impact reporting (handbook - harmonized template for impact reporting) with suggested metrics</p>	<p>Almost all issuers report on quantitative metrics related to impacts of green projects, using metrics suggested by GBP.</p> <p>Disclosure of underlying methodology and/or assumptions is partial</p>
Verification	😊	Verification is not mandatory. Review by an independent third party is encouraged	Mandatory verification of actual or estimated impacts	Recommended	Rarely done by green bond issuers

Comments:

- We welcome the methodology disclosure requirement. We would have welcomed mandatory impact reporting until bond maturity. The considerations for “material change” in the need to report on allocation until the bond maturity are still confusing.
- Reference to ex-ante/ex-post impact measurement with promotion of actual impact would also have been welcome.

Mandatory reporting: In-depth analysis (3/3)

		EU GBS - June 2019	Significant change vs March 2019	GBP / SBP	Observed Market Practice
SPECIFIC DISCLOSURES					
Overall disclosure (location, content)		Both reportings and external verifications shall be published on the issuer's website or any other communication channel and shall remain available until maturity.	Not addressed	Recommend public disclosure of external reviews, and reporting readily available at least to bond holders	Almost all issuers publicly disclose on their website GBF, reporting and external reviews
Granularity of reporting (project vs portfolio)		Both reportings can be either at project-by-project level or at portfolio level (i.e. sector level)	N/A	Both reportings can be either at project-by-project level or at portfolio level (i.e. per category)	Depending on issuers' constraints in terms of data availability, confidentiality agreements, competitive considerations, or a large number of underlying projects
Split Financing vs refinancing		Required - The share of financing and refinancing is part of the impact reporting	N/A	Recommended that issuers provide an estimate of the share of financing vs. re-financing	Done by almost all green bond issuers
Split by type of assets		A breakdown of projects (assets, capex, opex, etc.) required in the impact reporting	N/A	Not addressed	Not addressed
Bond by Bond reporting granularity (for several issuances)		Reporting required per Green Bond with the respective ISIN stated.	N/A	Not addressed	Very often when issuers are repeat issuers, they tend to report on allocation and impact (especially on the latter) at eligible portfolio or allocated portfolio level (not at bond nor project level). It is only best practice players who report

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Comments:

- Even if reporting may cover several EU GB, we welcome the bond by bond reporting requirement, i.e. visibility on projects distribution by issuance, and at least some measurements whenever feasible on impact per EUR invested. The financing vs refinancing requirement as well as the pro-rata impact approach are also much welcomed.

EU Green Bond Standard Reporting Templates (1/2)

1. Basic information:

Issuer name:

Related Green Bond ISIN(s):

Accredited External Verification provider's name for the final allocation report:

Reporting period:

Publication date of reporting:

Frequency of reporting:

Next reporting planned for:

Reference to the Green Bond Framework applied:

2. Scope and Approach of Reporting

The reporting contains the following elements:

- Allocation reporting Impact reporting
- Combined allocation and reporting

Approach for impact reporting:

- Project-by-project reporting Portfolio-based reporting

Is the green bond in alignment with the EU Green Bond Standard ?

- Yes No

3. Allocation Reporting templates

ISIN	Total Green Bond proceeds	Total Proceeds allocated so far	Proceeds allocated Sector X to	Proceeds allocated Sector Y to	Proceeds allocated Sector Z to
<i>XS12345689</i>	<i>EUR 500 million</i>	<i>EUR 400 million</i>	<i>EUR 300 million</i>	<i>EUR 50 million</i>	<i>EUR 50 million</i>

EU Green Bond Standard Reporting Templates (2/2)

4.1. Project-by-project Reporting

Project name	Project description	Sector & environmental objectives	Total project cost	Share of financing	Amount of green bond proceeds allocated	Project start date/end date	Share of proceeds used for direct financing vs refinancing	Nature of green asset / Expenditure	If available Impact metric (absolute annually)	If available impact metric (relative)
<i>Wind Farm One</i>	Construction and installation of a windfarm with an annual generation capacity of x MW/GW	Renewable energy (wind energy) / Climate Change Mitigation	EUR 100 million	75%	EUR 75 million	2016 ongoing	100% financing	tangible asset (98% CAPEX, 2% OPEX)	x t CO2e emitted (based on y gCo2e/kwh) x t CO2e avoided	

4.1. Portfolio-based Reporting

Portfolio name	Portfolio description	Sector & environmental objectives	Total portfolio cost	Share of financing	Amount of green bond proceeds allocated	Portfolio start date/end date	Share of proceeds used for direct financing vs refinancing	Nature of green asset / Expenditure	If available Impact metric (absolute annually)	If available impact metric (relative)
<i>Solar energy portfolio</i>	Installation of solar rooftop panels for 4000 private households with a total annual generation capacity of x MW/GW	Renewable energy (solar photovoltaic) / Climate Change Mitigation	EUR 40 million	90%	EUR 36 million	2017 ongoing	100% financing	Tangible asset, (100% CAPEX)	x t CO2e emitted (based on y gCo2e/kwh) x t CO2e avoided	

Focus on Mandatory Verification



The draft EU-GBS uses the generic term ‘**external review**’ to refer to **two separate steps** in the considered verification process: an initial **pre-issuance verification** of the Green Bond Framework, commonly called until now Second Party Opinion, and a **post-issuance verification** of the Final Allocation Report, that we have been calling “Third Opinion”.

Before Issuance

Mandatory Verification

Before or at the **time of issuance**, through an initial Verification of the **alignment of the GBF with the EU-GBS**.

Verification of the Green Bond Framework (GBF) should be made publicly available **before or at the time of issuance**.

For avoidance of doubt, an initial Verification can be **valid for several bonds** issued under a program under the same GBF.

After Issuance

Mandatory Verification

After full allocation of proceeds, verification of proceeds allocation to eligible green projects (i.e. Allocation Reporting)

Verification of the Final Allocation Report should be made publicly available together **with the publication of the Final Allocation Report, or at the latest one year after the publication**

Encouraged Verification

Verification of Impact reporting is **not mandatory** but encouraged

Accreditation regime for verifiers

A regime yet to be determined

Four options for accreditation and supervision have been identified by the TEG:

- A **centralized regime** or authorization and supervision by **ESMA** ✓
- A **decentralized regime**, involving national competent bodies in EU Member States possibly coordinated by ESMA ✗
- **Do nothing**: In case no European accreditation scheme should be developed by the EU Commission ✗
- **Market-based regime** with European Commission participation, which would be similar to the interim market-based initiative scheme considered in coordination with the future **EU Platform on Sustainable Finance** with the input of one or more **European Supervisory Authorities** ✓



TEG recommendations ✓

- The set-up, as soon as possible, of a **voluntary interim registration process** for Verifiers of EU Green Bonds for an estimated transition period of **up to three years**
- A final **centralized approach** built on an **ESMA-led accreditation regime**

Governance

The scheme would be designed to operate in close cooperation with **the future EU Platform on Sustainable Finance** but would be established with its own **multi-stakeholder advisory board** and a dedicated **secretariat**.

The voluntary interim registration process for Verifiers



Pending the setting of the ESMA-led accreditation scheme, a Voluntary Interim Registration Scheme may be established.

Accreditation includes explicit requirements related to :

- (i) professional codes of conduct related to business ethics, conflicts of interest and independence;
- (ii) professional minimum qualifications and quality assurance and control; and
- (iii) standardized procedures for Verification.

Selection principles



The external review market can be divided into four types of organizations:



The voluntary interim registration process for Verifiers

Yet to be established



The TEG has developed a proposal for a **voluntary interim registration scheme**, to be set up firstly on a **project and market-based approach** to be substituted for as soon as possible by an **ESMA or EU institution-led** setup and preferably by the future **EU Platform on Sustainable Finance**.

The voluntary interim registration process:



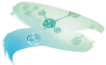



Development of **standardized verification scheme**, which would enable issuers to have their **taxonomy-related** information of their green bonds verified by registered verifiers

Definition of **minimum criteria** for registration and guidance for verifiers, considering best market practices such as the **Climate Bonds Initiative's (CBI) Approved Verifier scheme**

Decision, from time to time, to commission an **independent assessment of the registered verifiers'** qualifications and management processes

Set up and update of a public registry of approved verifiers that meet the accreditation criteria and make it available on a dedicated website: **some verifiers might only be approved for climate-related services in certain sectors only**

Mandatory verification: in-depth analysis (1/2)

		EU GBS - June 2019	Significant change vs March 2019	GBP / SBP	Observed Market Practice
Mandatory scope		Required for the Green Bond Framework (alignment with GBS) and for the final Allocation Report (allocation of the proceeds to green eligible projects)	Required for the GBF (alignment with GBS) and for the overall Reporting (alignment of allocation and actual or estimated impacts)	Recommended for the GBF (alignment with the four core components of GBP), the internal tracking method and the allocation of funds, the underlying assets and/or procedures and the reporting	According to our market data monitoring, 98% of green & social bond issuances have been externally verified
Timing (pre/post and when)		<ul style="list-style-type: none"> - Pre-issuance (before or at the time of issuance) verification of the GBF (can be valid for several bonds issued under the GBF) - Post-issuance (after full allocation - at the latest one year after the publication of the Allocation Report) verification of the final Allocation Report 	N/A	<ul style="list-style-type: none"> - Recommended pre and post bond issuance - 'When' not addressed 	<ul style="list-style-type: none"> - pre-issuance (before issuance): SPO on alignment of the GBF with GBP and on level of contribution to green / sustainability - post-issuance (at time of reporting publication): auditor assurance on allocation and tracking process and allocation of funds
Accreditation		<p>Verification provider(s) will be subject to accreditation including requirements related to</p> <ul style="list-style-type: none"> (i) professional codes of conduct related (ii) professional minimum qualifications and quality assurance and control (iii) standardized procedures for Verification. <p>Before the ESMA-operated accreditation regime is in place, a Voluntary Interim Registration Scheme may be established</p>	N/A	<p>4 different types of external review as detailed (SPO, Verification, Certification, Scoring/Rating). In 2018, the GBP and SBP have released "Guidelines for External Reviews" which provide expectations for professional and ethical standards for External Reviewers and include guidance related to organization, content and disclosure for their reports</p>	Generally, private RfP to SPO providers and same auditor as the one already mandated at corporate level






Mandatory verification: in-depth analysis (2/2)

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Comments:

- We welcome the proposed mandatory verification by an EU accredited external reviewer, pre and post issuance. Though, we would want to underline that there remains some “grey” areas in the EU GBS & Taxonomy which will leave some room for interpretation for the external reviewer.
- The accreditation process is likely to “kill” the SPO format as we know it and turn external party’s involvement into a pure verification model. Accordingly, we are likely to see the external reviewer landscape substantially modified/restricted in favor of auditors. Having said that, such evolution might take quite some time to happen since the Taxonomy is only covering the Climate Change related potential eligible categories, which only represent a fraction of the Green bonds market practices and would still need some “green integrity” third party assessment. Meanwhile, the item referring to the issuer’s overall strategy, which is of the utmost importance to demonstrate consistency and evidence transition pathways, is a rather qualitative assessment for which the non-financial rating agencies might be more equipped than auditors.
- We would not be surprised, though, to see some “consulting” services develop to help issuers meet the standards or design their impact measurements.

Yet to be addressed (1/2)

		EU GBS - June 2019	Significant change vs March 2019	GBP / SBP	Observed Market Practice
Issuer level ESG performance		Not addressed	N/A	<p>- No level required. GBP recommend that issuers clearly communicate their ESG objectives, and how they will identify and manage potential ESG risks associated with the selected projects</p> <p>- GBP indicate that many investors consider the issuer's ESG profile. In the presence of controversial issues, such as fossil fuel, extractive or nuclear-based activities, or limited overall sustainability credentials, investors, stock exchanges, index providers and other market participants may also require additional transparency or commitment from the issuer</p>	<p>Most green bond issuers include some elements of presentation of their sustainability strategy and profile in their GBF, and often indicate their ESG rating and/or presence in ESG indices in their investor presentation.</p> <p>Oekom, Sustainalytics and Vigeo's SPOs systematically include an issuer-level ESG analysis.</p> <p>Most green-driven investors consider the issuer's ESG profile in their assessment of a given green bond, but the importance attributed to such rating varies from one investor to another</p>
Allocation period		Not addressed	N/A	Not clearly defined - GBP recommend allocation to eligible projects as soon as possible	Maximum of 2-3 years of allocation period after issuance
Recycling policy		Not addressed	N/A	Not addressed	In case of change in the portfolio (project divestment, repayment, cancellation, ineligibility, etc.), issuers generally commit to replacing the project by another eligible project, and to report on such change
Cash management pending allocation		Not addressed	N/A	No clear recommendation - Indication that there is a strong investor preference that issuers use and disclose liquid temporary investments, additionally, some investors have a strong preference that liquid temporary investments should be ESG / Green products as much as possible	Temporary placements are generally liquid instruments such as cash, cash equivalent and/or money market instruments

Yet to be addressed (2/2)

		EU GBS - June 2019	Significant change vs March 2019	GBP / SBP	Observed Market Practice
Pure player eligibility		Not clearly addressed - Green Projects are defined as assets, opex or investments aligned with the EU Taxonomy, which can be interpreted as allowing eligibility for “pure play” provided the underlying entire entity meets the screening criteria	N/A	Bonds issued by pure players are considered as green bonds only when they are explicitly aligned with the GBP four components. I.e. no automatic eligibility	Mixed. Quite a number of frameworks do allow for some of its UoP to go to pure play type investments (cf. banks)
Acquisition eligibility		Not addressed	N/A	Not addressed	Generally accepted
Ex-ante vs ex post impact reporting		Not addressed	N/A	Environmental impact should be based on ex-ante estimates (developed prior to project implementation) of expected annual results for a representative year once a project is completed and operating at normal capacity	Green bond issuers generally report on ex-ante estimations of environmental results and/or impacts
Additionality		The notion of additionality is addressed in the section 2 of the EU GBS and reminds some elements of additionality associated with the green bond market : refinancing in line with sustainability strategy, refinancing making additional funds available for reinvestment in new projects, scalability (making green investable, etc. One would argue that the clarity & common language provided by the EU Taxonomy will create favorable conditions for additional “green projects ” being invested		No explicit real consideration for the notion except with regards to the recommended transparency requirement on the split financing/ refinancing	Some issuers decide, in the name of additionality, to only dedicate proceeds to “new financings”. Though this has been a debate since the creation of this market and much of it relies on the definition of the notion of additionality
Expected level of verification		Not addressed	N/A	Not addressed	Limited assurance report are generally provided by auditors for the review of allocation report. No common practice for SPO in terms of level of verification

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