

# GREEN BONDS: STANDARD DEVIATION REDUX

## KEY DIFFERENCES FOR CORPORATE ISSUERS BETWEEN THE ICMA GREEN BOND PRINCIPLES & PROPOSED EUROPEAN GREEN BOND STANDARD

### ICMA GBP

- Voluntary guidelines outlining minimum standards for issuers seeking to finance eligible green projects
- Initially published in 2014; updated in 2018 and 2021
- De facto global green bond market guidelines

### EU GBS

- Proposed voluntary standard for EU and non-EU issuers financing eligible green projects within or outside the EU published on July 6, 2021
- Adoption by the European Parliament and European Council expected in 2022
- Link to EU Taxonomy intended to address greenwashing/reputational risks
- Alignment with EU GBS permits an issuance to be marketed as a “European green bond” or “EuGB”

## CORE PRINCIPLES

### USE OF PROCEEDS / GREEN PROJECTS

- 100% of net proceeds, or an amount equal to such net proceeds, used to (re)finance eligible green projects, including eligible intangible assets and expenditures
- **Broad project eligibility categories**

### USE OF PROCEEDS / GREEN PROJECTS

- 100% of gross proceeds used to (re)finance eligible green projects, including eligible intangible assets and expenditures
- **Eligible projects must be aligned with economic activities of the EU Taxonomy**

## STANDARD DEVIATION

- Non-exhaustive list providing more flexibility to issuers, including:
  - Renewable energy
  - Energy efficiency
  - Pollution prevention & control
  - Clean transportation
  - Terrestrial & aquatic biodiversity conservation
  - Climate change adaptation
  - Green buildings
- Issuers can look to international/regional and national taxonomies for project eligibility guidance

## STANDARD DEVIATION

Requires a project to:

- 1. Contribute substantially to at least one of the following six environmental objectives:**
  - Climate change mitigation
  - Climate change adaptation
  - Sustainable use and production of water and marine resources
  - Transition to circular economy
  - Pollution prevention and control
  - Protection and restoration of biodiversity and ecosystems
- 2. Do no significant harm to the other objectives (where relevant)**
  - Mix of quantitative and qualitative analyses of project life cycle and environmental impact
- 3. Comply with specified minimum safeguards to ensure alignment with international standards (e.g., OECD and ILO)**
- 4. Comply with activity-specific technical screening criteria**

## PROCESS FOR PROJECT EVALUATION & SELECTION

- Issuers should communicate the following to investors:
  - Environmental sustainability objectives
  - Process for determining eligible green projects and how they fit within the eligible product categories
  - Related eligibility criteria
- ICMA recommends this information be communicated by issuers via readily accessible green bond frameworks
- Generally achieved by an issuer publishing a green bond framework on its website outlining green bond alignment with ICMA GBP

## REPORTING

- **Annual information** on use of proceeds until full allocation of net proceeds and on a timely basis in case of material developments
- Annual reports should include:
  - list of eligible projects receiving allocated proceeds
  - brief description of such projects, allocated amounts, and expected impact
- ICMA recommends, but does not require, external reviews of pre-issuance green bond frameworks and post-issuance allocation impact reports
- See, e.g., *ICMA's Harmonized Framework for Impact Reporting*

## MANAGEMENT OF PROCEEDS

- Net proceeds and project allocations should be tracked and adjusted accordingly during life of the green bond
- Temporary use of unallocated proceeds should be disclosed to investors

## EUROPEAN GREEN BOND FACTSHEET

- Prior to issuance, issuers required to publish a “European green bond factsheet” based on a template set forth in Annex I to the proposal
- The factsheet must be subjected to a pre-issuance review with a positive opinion by an external reviewer

## REPORTING

- Allocation reporting
  - **At least** annually until full proceeds allocation based on a template set forth in Annex II to the proposal
- Impact reporting
  - **Following full proceeds allocation**, at least once during the life of the green bond based on a template set forth in Annex III to the proposal

## EXTERNAL REVIEW

- **Issuers required to appoint an external reviewer to assess & opine on:**
  - **Prior to issuance**, the European green bond factsheet, including the pre-issuance review elements set forth in Annex IV to the proposal; and
  - **Upon full allocation of proceeds**, the allocation reports, including the post-issuance review elements set forth in Annex IV to the proposal

## STANDARD DEVIATION

- Use of external reviewers and verification optional under ICMA GBP (although a key recommendation)
- EU GBS proposal includes the establishment of a registration system and supervisory framework for external reviewers overseen by the European Securities Market Authority to ensure minimum professional qualifications and standards