INFORMAL SUPPLEMENTARY DOCUMENT ON GREEN BONDS

THIS IS AN INFORMAL SUPPLEMENT TO KEY RECOMMENDATION NO. 5 PROVIDING FURTHER TECHNICAL INFORMATION REGARDING THE DEVELOPMENT OF A GREEN BOND STANDARD — IT IS NOT AN OFFICIAL HLEG DOCUMENT

Introduction

The HLEG recommended that the Commission introduce ‘an official European standard for green bonds. This EU Green Bond Standard, based on the association with the EU Sustainability Taxonomy, should include an explicit definition of an EU green bond and the existing and widely accepted market-developed principles for market processes.

1. Scope of the EU GBS
   The EU GBS shall apply to the issuance of EU Green Bonds and may be read together with the GBP. The text of the EU GBS will prevail over the GBP for EU Green Bonds.

2. Objective of the EU GBS
   The EU GBS is intended to provide a framework of key components to EU Green Bonds, as defined below. The EU GBS is also intended to enhance transparency, integrity, consistency and comparability of EU Green Bonds.

3. Definition of an EU Green Bond
   As described in the HLEG Final Report, an EU Green Bond is any type of listed bond instrument meeting the three following requirements:

   1. The proceeds will be exclusively used to finance or re-finance in part or in full new and/or existing eligible green projects, in line with the future EU Sustainability Taxonomy (see below section 4.1., Use of Proceeds); AND,
   2. The issuance documentation of the bond shall confirm the alignment of the EU Green Bond with the four components of the EU Green Bond Standard; AND,
   3. The alignment of the bond with the four components of the EU GBS has been verified by an independent and accredited external reviewer.

   An issuer may only use the term ‘EU Green Bond’ if the above criteria are met.

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1 See the HLEG final report, ‘Financing a Sustainable European Economy’, page 33, 2018.
It is understood that certain green projects may have social co-benefits, and that the classification of a use of proceeds bond as green should be determined by the issuer based on its primary objectives for the underlying projects.

It is important to note that EU Green Bonds should not be considered fungible with bonds that do not meet the definition of an EU Green Bond and are not aligned with the four core components of the EU GBS.

4. **Guidance on the Four Core Components of the EU GBS**

4.1. **Use of Proceeds**

4.1.1. Proceeds from the EU Green Bonds shall be used for green projects (including other related and supporting expenditure such as research and development) and must be appropriately described in the legal documentation for issuance of the EU Green Bonds. All designated green projects shall provide clear environmental benefits, which shall be assessed and, where feasible, quantified by the issuer.

4.1.2. In the event that all or a proportion of the proceeds are or may be used for refinancing, issuers shall provide an estimate of the share of financing and refinancing and, to the extent relevant, the expected look-back period for refinanced projects. Where appropriate, issuers shall also clarify which investments or project portfolios may be refinanced. ‘Look-back’ refers to a maximum period in the past that an issuer will ‘look back’ to in order to identify assets/earlier disbursements to such ‘eligible green projects’ that will be included in the green bond reporting.

4.1.3. Green projects must be aligned with the EU Sustainability Taxonomy once available. In the meanwhile, green projects must be aligned with at least one of the following:

(i) The GBP Project Categories;
(ii) The Climate Bonds Taxonomy, issued by the Climate Bonds Initiative.

Green projects may relate to more than one category or taxonomy.

4.2. **Process for Project Evaluation and Selection**

4.2.1. The issuer shall establish the process for project evaluation and selection prior to the issuance of the EU Green Bond and which shall be disclosed to investors.

4.2.2. The issuer of an EU Green Bond shall clearly communicate to investors:

(i) The environmental sustainability objectives;
(ii) The process by which the issuer determines how the projects fit within the eligible green projects categories identified above;
(iii) The related eligibility criteria, including, if applicable, exclusion criteria or any other process applied to identify and manage potentially material environmental and social risks associated with the projects.

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3 The four components of the EU Green Bond Standard are: (1) Use of proceeds; (2) Process for project evaluation and selection; (3) Management of proceeds; and (4) Reporting. See HLEG Final Report, page 32.
4.2.3 Issuers are encouraged to position the above information within the context of the issuer’s overarching objectives, strategy, policy and/or processes relating to environmental sustainability. Issuers are also encouraged to disclose any green standards or certifications referenced in project selection.

4.2.4 The issuer’s process for project evaluation and selection shall be supported by an external review (see below section 5., External Review).

4.2.5 The issuer’s process for project evaluation and selection shall be made publicly available on the Issuer’s website or any other communication channel before or at the time of the issuance of an EU Green Bond.

4.3 Management of Proceeds

4.3.1 Prior or at the time of the issuance of the EU Green Bonds, the issuer must disclose to investors the process for managing the net proceeds from the EU Green Bonds.

4.3.2 The net proceeds of the EU Green Bond, or an amount equal to these net proceeds, shall be credited into a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner and attested to by a formal internal process linked to the issuer’s lending and investment operations for green projects.

4.3.3 So long as the EU Green Bond is outstanding, the balance of tracked proceeds shall be periodically adjusted to match allocations to eligible green projects made during that period.

4.3.4 The issuer shall make known also to investors the intended types of temporary placement for the balance of the unallocated proceeds.

4.3.5 It is recommended that the issuer’s management of proceeds be supplemented by the use of an auditor, or other external review provider (see below section 5., External Review), to verify the internal tracking method and the allocation of funds from the EU Green Bonds proceeds.

4.4 Reporting

4.4.1 Issuers shall make and keep readily available up to date information to investors on the use of proceeds at least on an annual basis, until full allocation, and as necessary thereafter in the event of material developments. This information should include a list of the projects to which EU Green Bonds proceeds have been allocated, as well as a brief description of the projects and the amounts allocated and their expected impact.

4.4.2 Where confidentiality agreements, competitive considerations or a large number of underlying projects limit the amount of detail that can be made available, the issuer can, as a minimum, present the information in generic terms or on an aggregated portfolio basis (such as percentage allocated to certain project categories).

4.4.3 Issuers shall report whether they are monitoring the impact of their green projects and, if so, disclose estimated/actual impact. They are recommended to monitor achieved impacts by using qualitative performance indicators, and where feasible, quantitative performance measures (such as energy capacity, electricity generation, greenhouse gas emissions reduced/avoided, number of people provided with access to clean power, decrease in water use, reduction in the number of cars required, etc.) and disclosure of the key underlying
methodology and/or assumptions used in the quantitative determination. Issuers are recommended to monitor and implement best practice in impact reporting, based on GBP recommendations and market developments, as well as EU guidance and international standards when available, in order to promote the impact reporting and benchmarking of green projects. Issuers with the ability to monitor achieved impacts are encouraged to include those in their regular reporting.

4.4.4 The annual reporting by the issuer to investors shall be made publicly available through the issuer’s website updates, annual reports, newsletters or any other communication channels.

5. **External Review**

5.1. Issuers shall appoint external review provider(s) to confirm the alignment at issuance of their EU Green Bond with all four core components of the EU GBS or alternatively the alignment of their EU Green Bond programmes. Such external review(s) shall be made publicly available on the issuer’s website and through any other accessible communication channel as appropriate before or at the time of the issuance of its EU Green Bond(s). Any subsequent external review(s) shall also be made publicly available on the issuer’s website and through any other communication channel as appropriate.

5.2. Appointed external review provider(s) shall be subject to future accreditation criteria. Such accreditation should be based on best practice and existing regulatory requirements and shall include 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) standardised procedures for external reviews. Oversight and supervision of accredited external review providers could be managed by the national accreditation bodies in member states on a harmonised basis, and/or supervised by a competent ESA.

5.3. In any case, external review providers shall demonstrate the relevant expertise and experience in the components of the EU Green Bonds which they have reviewed. External review providers shall also disclose their relevant credentials and expertise and the scope of the review conducted in the external review report.

5.4. The future EU accreditation criteria can build upon and expand current market practices such as the Climate Bonds Initiatives approved verifiers approach and the external review as defined by the GBP.