

Second-Party Opinion

EU SURE Social Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the EU SURE Social Bond Framework is aligned with the four core components of the Social Bond Principles 2020 with one notable limitation. This assessment is based on the following:



USE OF PROCEEDS Eligible Social Expenditures under the Framework will help to finance measures by EU Member States to alleviate negative impacts on employment income as a result of the Covid-19 pandemic. This is aligned with categories recognized by the Social Bond Principles. Sustainalytics considers this will create substantial positive social impacts and advance the UN Sustainable Development Goals, specifically SDG 3 and 8. Sustainalytics notes, however, that the SURE Regulation and the Framework do not exclude employment support in sectors considered to have negative environmental and social impacts, and Sustainalytics considers this to be a limitation of the Framework.



PROJECT EVALUATION / SELECTION The EC's SURE programme provides funding to Member States under the agreement that they will allocate it to the State's national short-time employment schemes. The EC has a thorough process to evaluate Member States' schemes and determine their eligibility for the SURE Programme. Once deemed eligible, upon receipt of funds, Member States may disburse funds according to their schemes' criteria. This process is aligned with market practice.



MANAGEMENT OF PROCEEDS Upon receipt of proceeds, Member States shall open an account with the national bank for the management of proceeds. The EC is responsible for ensuring that SURE proceeds are used by the beneficiary Member States exclusively for the Eligible Social Expenditures outlined by the SURE programme regulation. Using a formal internal process, the EC will track and monitor the use of SURE proceeds by Member States. This is aligned with market practice.



REPORTING European Commission intends to report allocation proceeds on its website, on an annual basis, until full allocation, by the breakdown of SURE proceeds to beneficiary Member States and the main type of Eligible Social Expenditure. Member States will be requested to provide impact and allocation data. Sustainalytics notes that the Commission intends to report on impact, however its ability to do so will be subject to the quality and granularity of data provided by beneficiary Member States. This process is aligned with market practice.

Evaluation date September 16, 2020

Issuer Location Brussels, Belgium

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Introduction

European Commission (“EC”, the “Commission”, or the “Issuer”) is the European Union’s (EU) politically executive arm. It is responsible for proposing legislation, implementing decisions, upholding the EU treaties, and managing the day-to-day business of the EU.¹

EC has developed the EU SURE Social Bond Framework (the “Framework”) under which it intends to issue social bonds and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future loans that will support national short-time work schemes and similar measures with the aim of helping Member States protect jobs and thus employees and the self-employed against the risk of unemployment and loss of income. Plus, health-related measures.

EC engaged Sustainalytics to review the EU SURE Social Bond Framework, dated September 2020, and provide a second-party opinion on the Framework’s social credentials and its alignment with the Social Bond Principles 2020 (SBP).² This Framework has been published in a separate document.³

Scope of work and limitations of Sustainalytics Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁴ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Social Bond Principles 2020, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds;
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.5.1, which is informed by market practice and Sustainalytics expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of EC’s management team to understand the sustainability impact of their planned use of proceeds, as well as management of proceeds and reporting aspects of the Framework. EC representatives have confirmed (1) they understand it is the sole responsibility of EC to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and EC.

Sustainalytics’ Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics’ Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

¹ EU, “European Commission”, at: https://europa.eu/european-union/about-eu/institutions-bodies/european-commission_en

² The Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

³ The EU SURE Social Bond Framework is available on European Commission’s website at: http://ec.europa.eu/economy_finance/eu_borrower/index_en.htm

⁴ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

In addition, the Second-Party Opinion opines on the intended allocation of proceeds but does not guarantee the realised allocation of the bond proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that EC has made available to Sustainalytics for the purpose of this SPO.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the EU SURE Social Bond Framework

Sustainalytics is of the opinion that the EU SURE Social Bond Framework is aligned with the four core components of the SBP with one notable limitation, which is described below. Sustainalytics highlights the following elements of EC's Social Bond Framework:

- Use of Proceeds:
 - The SURE Programme and the Framework have the overarching aim of helping EU Member States to protect jobs (and therefore employees) and the self-employed against the risk of unemployment and loss of income in the face of the widespread negative economic impacts of COVID-19. Sustainalytics believes that the use of proceeds will make a substantial contribution to alleviating the negative impacts of the pandemic on employment income for beneficiary Member States and their general populations.
 - Proceeds from the EU SURE Social Bonds will be used to disburse loans on favourable terms to Member States “experiencing, as of February 1, 2020, a sudden and severe increase in public expenditure on the preservation of employment, to tackle the economic disturbance caused by the COVID-19 outbreak.”⁵
 - Loans may be used by Member States to finance or refinance, in whole or in part, Eligible Social Expenditures, which include:
 - § Short-time work schemes⁶ or similar measures designed by Member States with the intention to protect employees and the self-employed against the risk of unemployment and the loss of income.
 - § Health-related measures in the workplace.
 - Eligible financial assistance may include grants, subsidies, and other benefit schemes for businesses (including self-employed) facing significant impact on their revenues. Such assistance is granted on the condition of maintaining employment on and after deriving benefits from the EC's provision of loans.
 - The Framework's criteria for eligible schemes and measures (which, in addition to short-time work schemes, may include parental leave, child-care support, and subsidies related to wages, health, and social security contributions) allow for great variation with respect to the specific nature of Member States' national programmes as well as whether and/or how they target certain segments of the workforce. Furthermore, under the Framework financial assistance will be available to companies of all sizes and across all sectors without consideration of the nature of a company's business activities.
 - While recognizing the positive impacts of the schemes to be funded, Sustainalytics notes that the eligibility of income support across a full range of businesses and sectors, administered at the discretion of individual Member States, makes it possible that some bond proceeds will be used to support employment income in sectors that have negative environmental or social impacts. Sustainalytics considers this to be a substantial limitation of the Framework.

⁵ European Commission SURE Social Bond Framework.

⁶ Short-time work schemes are public programmes that allow firms experiencing economic difficulties to temporarily reduce the hours worked while providing their employees with income support from the State for the hours not worked.

- Project Evaluation and Selection:
 - Member States are responsible for engaging the EC and submitting a detailed and substantiated request for financial assistance as per Article 6 of the SURE Regulation. The EC has a thorough process to evaluate Member States' schemes and determine their eligibility for the SURE Programme. The EC is also responsible for assessing the costs of the requested measures and determining the terms of the loan, which must be agreed by the Council of the EU.
 - Decisions regarding the final disbursement of proceeds are made by Member States, within the constraints set by the SURE Regulation and the approved national schemes. While acknowledging that the use of proceeds criteria allows for disbursement to a full range of businesses and sectors, as discussed above, Sustainalytics nonetheless considers this process to be in line with market practice.
 - When combined with the limitation of the Use of Proceeds criteria noted above, this structure creates a challenge in assessing the expected social impact of the net proceeds from the bond programme, particularly when financial assistance relates to a wide range of business activities.
- Management of Proceeds:
 - Upon receipt of proceeds, Member States shall open an account with their national bank for the management of the financial assistance received. The EC is responsible for ensuring that SURE proceeds are used by the beneficiary Member States exclusively for Eligible Social Expenditures compliant with the SURE programme regulation. Using a formal internal process, The EC will track and monitor the use of SURE proceeds by Member States. Bond proceeds will be fully allocated upon issuance.
 - Based on the above, Sustainalytics considers this process to be in line with market practice.
- Reporting:
 - Beneficiary Member States are responsible for reporting on the disbursement of SURE proceeds to the EC within six months of receipt, and every six months thereafter. The EC will report on the allocation of the SURE proceeds. The allocation report will present, in aggregate terms, the breakdown of SURE proceeds by beneficiary Member State and the main type of Eligible Social Expenditure.
 - Regarding impact reporting, Member States will be requested to provide impact data to the EC every six months from issuance, and every six months thereafter. Sustainalytics notes that the Commission intends to report on impact, however its ability to do so will be subject to the quality and granularity of data provided by beneficiary Member States. The EC will provide reporting on its website, annually, until full allocation of proceeds.
 - Based on the above, Sustainalytics considers this process to be in line with market practice.

Alignment with Social Bond Principles 2020

Sustainalytics has determined that the EU SURE Social Bond Framework aligns with the four core components of the SBP with the one notable limitation explained above. For detailed information please refer to Appendix 1: Social Bond/Social Bond Programme External Review Form.

Section 2: Sustainability Strategy of EC

Contribution of Framework to European Commission's sustainability strategy

Sustainalytics notes that as a supranational entity, the European Commission is a strong driver of sustainability within the European Union. In 2019, the EC adopted a set of strategic priorities for the 2019-2024 term,⁷ in line with core European Union values.⁸ The six strategic priorities are: (i) a European Green Deal, (ii) a Europe fit for the digital age, (iii) an economy that works for people, (iv) a stronger Europe in the world, (v) promote the European way of life, and (vi) a new push for European democracy.⁷

The Commission's priorities establish several social, environmental, and economic policy areas, some of which are specifically relevant to the Framework. For example, within the priority "An economy that works for people," the Commission focuses on policy areas directed at employment generation and retention, including youth employment, long-term unemployment, secure fair working conditions, labour market access and

⁷ European Commission, "Priorities", at: https://ec.europa.eu/info/strategy/priorities-2019-2024_en

⁸ European Commission, "Priorities and Goals", at: https://ec.europa.eu/info/priorities-and-goals_en

safeguard social rights.⁹ Moreover, the Commission, together with the European Parliament, and the European Council proclaimed the European Pillar of Social Rights (EPSR), in 2017.¹⁰ The EPSR aims to aid “efficient employment and social outcomes when responding to current and future challenges,” as well as “express principles and rights for fair and well-functioning labour markets and welfare systems in 21st century Europe.”¹⁰ The Framework will contribute to safeguarding the long-term labour market goals of the EU, while being part of the emergency instrument of the Recovery plan for Europe from the coronavirus pandemic.¹¹ The Recovery plan aims to mend the social and economic damage caused by the pandemic, kick-start the recovery, protect and create jobs.¹¹

Sustainalytics is of the opinion that the EU SURE Social Bond Framework is aligned with the Commission’s social and economic strategy. The SURE instrument will complement spending by Member States to expand short-time work schemes and will contribute to their ability to preserve jobs and contain unemployment.

Social and environmental risks associated with the projects

Sustainalytics recognizes that the net proceeds from the bonds issued under the Framework will be directed towards financing activities that are recognized by the Social Bond Principles (2020) to have positive social impact. However, Sustainalytics notes that the Commission does not have direct control over the allocation of loan proceeds and, as such, there is minor exposure to the risk of misappropriation of funds.

- With regards to the misappropriation of funds, the loan agreement between the Commission and the Member States will include provisions required by the Article 220(5) of Regulation (EU, Euratom) 2018/1046¹² such as: (i) ensuring that the beneficiary Member States regularly checks that the financing provided has been properly used in accordance with the pre-defined conditions, takes appropriate measures to prevent irregularities and fraud, and, if necessary, takes legal action to recover any funds provided under the financial assistance that have been misappropriated, (ii) ensuring that the Union is entitled to early repayment of the loan where it has been established that, in relation to the management of the financial assistance, the beneficiary country has engaged in any act of fraud or corruption or any other illegal activity detrimental to the financial interests of the Union.¹³

Based on the above, Sustainalytics is of the opinion that the European Commission has implemented adequate regulations to prevent the potential misappropriation of funds by Member States.

Section 3: Impact of Use of Proceeds

The two use of proceeds categories are aligned with those recognized by the SBP 2020. Sustainalytics has focused on one below where the impact is specifically relevant in the EU context.

Impact of temporary financial support to EU’s Member States for the preservation of employment

Before the onset of the economic downturn caused by the COVID-19 pandemic, the European Union unemployment rate (6.4% as of March 2020) was at a 12-year low, following a seven-year labour market recovery.¹⁴ Correspondingly, youth unemployment (15-24) was also at record low of 14.9%.¹⁵ A total of 13.81 million people were unemployed prior to the pandemic.¹⁶ The achievements of the European labour market were curtailed by the global pandemic. With stay-at-home orders and business activity slowing down, many workers have lost their jobs or been furloughed.¹⁷ As of May 2020, the decline in working hours in Europe

⁹ European Commission, “An economy that works for people”, at: https://ec.europa.eu/info/strategy/priorities-2019-2024/economy-works-people_en

¹⁰ European Commission, “European Pillar of Social Rights”, (2017), at: https://ec.europa.eu/commission/sites/beta-political/files/social-summit-european-pillar-social-rights-booklet_en.pdf

¹¹ European Commission, “Recovery plan for Europe”, at: https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/recovery-plan-europe_en

¹² European Commission, “Regulation (EU) 2020/672”, (2020), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0672&from=en>

¹³ European Union, “Regulation (EU, Euratom) 2018/1046”, (2018), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32018R1046>

¹⁴ Financial Times, “Unemployment rises in Europe as coronavirus ends labour market recovery”, (2020), at: <https://www.ft.com/content/b26beabf-fd2f-4712-8f0a-633df335672b>

¹⁵ European Parliament, “Covid-19: how the EU fights youth unemployment”, (2020), at:

<https://www.europarl.europa.eu/news/en/headlines/society/20200709STO83004/covid-19-how-the-eu-fights-youth-unemployment>

¹⁶ Eurostat, “News release. Euro Indicators. July 2020”, at: <https://ec.europa.eu/eurostat/documents/2995521/11156668/3-30072020-AP-EN.pdf/1b69a5ae-35d2-0460-f76f-12ce7f6c34be>

¹⁷ VoxEU, “The asymmetric impact of COVID-19 confinement measures on EU labour markets”, (2020), at: <https://voxeu.org/article/covid-19-lockdown-and-eu-labour-markets>

averaged 12.9%,¹⁸ and by June more than 15 million people across the Union were unemployed (7.1%), youth unemployment reached 16.8%,¹⁶ and more than 40 million people have enrolled in furlough schemes.¹⁴ The extent of the impact of the COVID-19 pandemic crisis varies across Member States. For example, the lowest unemployment rates in the Union in Czechia (2.6%) and Poland (3%) are significantly lower than in Latvia (10.1%) and Spain (15.6%), the most affected Member States.¹⁶ Likewise, different industries have been affected differently, with transportation (including air travel), tourism, personal and consumer services, retail and manufacturing among the hardest hit. In contrast, professional services and telecommunication business have not felt a strong negative effect.¹⁹

Nonetheless, government-subsidised furlough schemes have shielded the EU labour market from a larger loss of employment, as compared to other nations where such schemes were less established.¹⁴ It is estimated that the COVID-19 crisis could cause EU households' labour income to drop by 22% due to reduced work hours.²⁰ This impact is expected to be mitigated by short-time work (STW) schemes,²¹ with net labour income dropping by only 7%.²⁰ Across the world demand for STW has been unprecedented and widespread.²² Thus, in April 2020 the European Commission announced the SURE instrument for up to EUR 100 billion to supply loans to Member States to alleviate social and economic impact of COVID-19 crisis, and complement Member States' sudden increases in public expenditure for the preservation of employment.²³ The SURE instrument will be underpinned by a system of guarantees from Member States allowing the expansion of the volume of loans that can support STW schemes and similar measures.²³ By July 2020, the Commission had reportedly received expressions of interest from 18 Member States, totaling EUR 94.5 billion.²⁴ While SURE will be available for all Member States, it will act as a particular safety net for the workers in the hardest-hit economies of the Union.²⁵

STW schemes have several benefits as a countercyclical policy intervention to prevent unemployment and long-term labour market exclusion. Additionally, STW schemes support economic recovery in two ways: (i) by preserving employment relations and firms' cash-flow which allows businesses to quickly resume activity once containment measures are lifted, and (ii) by reducing household income uncertainty to help maintain household spending.²⁰ The European Commission will provide support to maintain and expand STW schemes via financing loans to complement Member States public spending to protect incomes and preserve the productive capacity and human capital of enterprises and the economy as a whole.

Based on the above, Sustainalytics is of the opinion that the Commission's support for national STW schemes will provide positive social and economic impact by increasing access to social protection measures and by improving Member States' capacity to respond to COVID-19 crisis.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 and form an agenda for achieving sustainable development by the year 2030. This social bond advances the following SDG goals and targets:

Use of Proceeds Category	SDG	SDG target
Employment generation, and programs designed to prevent and/or alleviate unemployment	8. Decent work and economic growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization

¹⁸ ILO, "ILO Monitor: COVID-19 and the world of work. Fourth edition. Updated estimates and analysis", (2020), at: https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/briefingnote/wcms_745963.pdf

¹⁹ IDC, "COVID-19 Will Continue to Affect IT Spending in Europe This Year, With Transportation and Leisure Businesses Struggling Most", (2020), at: <https://www.idc.com/getdoc.jsp?containerId=prEUR146347720>

²⁰ ECB, "Short-time work schemes and their effects on wages and disposable income", (2020), at: https://www.ecb.europa.eu/pub/economic-bulletin/focus/2020/html/ecb.ebbox202004_06~6b0e718192.en.html

²¹ Public programmes that allow firms experiencing economic difficulties to temporarily reduce the hours worked while providing their employees with income support from the State for the hours not worked, at: <https://www.eurofound.europa.eu/observatories/eurwork/industrial-relations-dictionary/short-time-work#:~:text=Definition,for%20the%20hours%20not%20worked>.

²² OECD, "Job retention schemes during the COVID-19 lockdown and beyond", (2020), at: <http://www.oecd.org/coronavirus/policy-responses/job-retention-schemes-during-the-covid-19-lockdown-and-beyond-0853ba1d/>

²³ European Commission, "Council Regulation on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak", (2020), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2020%3A139%3AFIN>

²⁴ FT, "EU accelerates plans to borrow €100bn in Covid-19 relief effort", (2020), at: <https://www.ft.com/content/1a81bd60-270f-4d41-870e-e22e67c17539>

²⁵ European Council, "COVID-19: Council adopts temporary support to mitigate unemployment risks in an emergency (SURE)", (2020), at: <https://www.consilium.europa.eu/en/press/press-releases/2020/05/19/covid-19-council-reaches-political-agreement-on-temporary-support-to-mitigate-unemployment-risks-in-an-emergency-sure/>

EU SURE Social Bond Framework

stemming from socioeconomic crises		and growth of micro-, small- and medium-sized enterprises, including through access to financial services 8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value
Access to Essential Services - Health	3. Good health and well-health	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all

Conclusion

EC has developed the EU SURE Social Bond Framework under which it will issue social bonds and use the proceeds to help finance measures by Member States that aim to preserve the income of employees at firms experiencing substantial negative impacts of the COVID-19 outbreak, and of self-employed individuals experiencing the same. In Sustainalytics' opinion the bond proceeds will make a substantial contribution to alleviating the negative impacts of the pandemic on employment income within beneficiary Member States. Sustainalytics also notes that the Framework's Use of Proceeds criteria allow for income support across a full range of businesses and sectors, makes it possible that some proceeds will be used to support employment income in sectors that have negative environmental or social impacts. Sustainalytics considers this to be a limitation of the Framework.

The EU SURE Social Bond Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the EU SURE Social Bond Framework is aligned with the overall sustainability strategy of the Commission and that the social use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 3 and 8.

Sustainalytics considers the EU SURE Social Bond Framework to be credible and aligned with the core components of the Social Bond Principles 2020 with the one notable limitation as described above.

Appendices

Appendix 1: Social Bond/ Social Bond Programme -External Review Form

Section 1. Basic Information

Issuer name:	European Commission
Social Bond ISIN or Issuer Social Bond Framework Name, if applicable:	EU SURE Social Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	September 16, 2020
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (if applicable)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (if applicable):

Eligible Social Expenditures under the Framework will help to finance measures by EU Member States to alleviate negative impacts on employment income as a result of the Covid-19 pandemic. This is aligned with categories recognized by the Social Bond Principles. Sustainalytics considers this will create substantial positive social impacts and advance the UN Sustainable Development Goals, specifically SDG 3 and 8. Sustainalytics notes, however, that the SURE Regulation and the Framework do not exclude employment support in sectors considered to have negative environmental and social impacts, and Sustainalytics considers this to be a limitation of the Framework.

Use of proceeds categories as per SBP:

- | | |
|---|---|
| <input type="checkbox"/> Affordable basic infrastructure | <input type="checkbox"/> Access to essential services |
| <input type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input type="checkbox"/> Other (please specify): |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

The EC's SURE programme provides funding to Member States under the agreement that they will allocate it to the State's national short-time employment schemes. The EC has a thorough process to evaluate Member States' schemes and determine their eligibility for the SURE Programme. Once deemed eligible, upon receipt of funds, Member States may disburse funds according to their schemes' criteria. This process is aligned with market practice.

Evaluation and selection

- | | |
|---|--|
| <input checked="" type="checkbox"/> Credentials on the issuer's social objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Social Bond proceeds | <input type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |

- Summary criteria for project evaluation and selection publicly available Other (please specify):

Information on Responsibilities and Accountability

- Evaluation / Selection criteria subject to external advice or verification In-house assessment
- Other (please specify):

3. MANAGEMENT OF PROCEEDS

Overall comment on section (if applicable):

Upon receipt of proceeds, Member States shall open an account with the national bank for the management of proceeds. The EC is responsible for ensuring that SURE proceeds are used by the beneficiary Member States exclusively for the Eligible Social Expenditures outlined by the SURE programme regulation. Using a formal internal process, the EC will track and monitor the use of SURE proceeds by Member States. This is aligned with market practice.

Tracking of proceeds:

- Social Bond proceeds segregated or tracked by the issuer in an appropriate manner
- Disclosure of intended types of temporary investment instruments for unallocated proceeds
- Other (please specify):

Additional disclosure:

- Allocations to future investments only Allocations to both existing and future investments
- Allocation to individual disbursements Allocation to a portfolio of disbursements
- Disclosure of portfolio balance of unallocated proceeds Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

European Commission intends to report allocation proceeds on its website, on an annual basis, until full allocation, by the breakdown of SURE proceeds to beneficiary Member States and the main type of Eligible Social Expenditure. Member States will be requested to provide impact and allocation data. Sustainalytics notes that the Commission intends to report on impact, however its ability to do so will be subject to the quality and granularity of data provided by beneficiary Member States. This process is aligned with market practice.

Use of proceeds reporting:

- Project-by-project
 On a project portfolio basis
- Linkage to individual bond(s)
 Other (please specify):

Information reported:

- Allocated amounts
 Social Bond financed share of total investment
- Other (please specify):

Frequency:

- Annual
 Semi-annual
- Other (please specify):

Impact reporting:

- Project-by-project
 On a project portfolio basis
- Linkage to individual bond(s)
 Other (please specify):

Information reported (expected or ex-post):

- Number of beneficiaries
 Target populations
- Other ESG indicators (*please specify*):

Frequency:

- Annual
 Semi-annual
- Other (please specify):

Means of Disclosure

- Information published in financial report
 Information published in sustainability report
- Information published in ad hoc documents
 Other (please specify):
- Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review):

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/sure_en

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE
Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (please specify): | |

Review provider(s):
Date of publication:
ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE SBP

- i. Second Party Opinion: An institution with social expertise, that is independent from the issuer may issue a Second Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
- iii. Certification: An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Social Bond Scoring/Rating: An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

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