



**EU TECHNICAL EXPERT GROUP ON
SUSTAINABLE FINANCE**

**Report of the Technical Expert Group (TEG)
subgroup on Green Bond Standard**

Proposal for an EU Green Bond Standard

Interim Report

Document for feedback

Green Bond Standard Subgroup

6 March 2019

Disclaimer

This is an interim version of the Report to be prepared by the TEG Green Bond Standard Subgroup

The views reflected in this Report are the views of the experts only.

They do not constitute the views of the Commission or its services, nor any indication as to the approach that the European Commission may take in the future.

ANNEX 1: DRAFT MODEL OF THE EU GREEN BOND STANDARD

1. Scope of the EU Green Bond Standard (GBS)

The EU GBS is a voluntary standard proposed to issuers that wish to align with leading best practices in the market. It is designed to be globally relevant and accessible to issuers located in the EU as well as to issuers located outside the EU. It builds on market best practices such as the Green Bond Principles (GBP).

2. Objective of the EU GBS

The EU GBS is intended to provide a framework of core components for EU Green Bonds, as defined below, thereby enhancing transparency, integrity, consistency and comparability of EU Green Bonds. The ultimate objective is to increase the flow of finance to green and sustainable projects.

3. 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 that is aligned with the EU GBS, and therefore meeting the following requirements:

1. The issuer's Green Bond Framework shall confirm the alignment of the EU Green Bond with the EU GBS; AND,
2. The proceeds, or an amount equal to such proceeds, shall be exclusively used to finance or re-finance in part or in full new and/or existing Green Projects as defined in section 4.1, as it shall be described in the bond documentation, AND
3. The alignment of the bond with the EU GBS shall have been verified by an accredited External Reviewer in accordance with section 4.4.

An issuer may only use the term 'EU Green Bond' if the above criteria are met. European and international issuers may decide to voluntarily requalify their existing green bonds as EU Green Bonds in the same manner and, for the avoidance of doubt, after verification by an accredited External Reviewer.

It is important to note that EU Green Bonds are only fungible with green bonds issued as EU Green Bonds or requalified as EU Green Bonds.

4. Core components of the EU GBS

1.1. Green Projects

Proceeds from EU Green Bonds, or an amount equal to such proceeds, shall be allocated only to finance or refinance Green Projects defined, subject to confirmation by an accredited External Reviewer (see section 4.4), as (a) contributing substantially at least one of the EU's Environmental Objectives namely (i) climate change mitigation, (ii) climate change adaptation, (iii) sustainable use and protection of water and marine resources, (iv) transition to a circular economy, waste prevention and recycling; (v) pollution prevention and control and (vi) protection of healthy ecosystems, while (b) not significantly harming any of the other objectives and (c) complying with the minimum social safeguards represented by the principles and rights

set out in the eight fundamental conventions identified in the International Labour Organisation's declaration on Fundamental Rights and Principles at Work.

When the EU Taxonomy Framework will be in force and where technical screening criteria have been developed in the Taxonomy for specific environmental objectives and sectors, Green Projects shall align with these criteria allowing however for exceptional cases where these may not be directly applicable as a result among other of the innovative nature, the complexity, and/or the location of the Green Projects. An accredited External Reviewer shall then either confirm alignment with the technical criteria, or alternatively that the projects nonetheless meet the requirements under the EU Taxonomy framework i.e. that they (a) contribute substantially to at least one of the EU's Environmental Objectives (b) do not significantly harm any of the other objectives and (c) comply with the minimum social safeguards.

The issuer shall provide a description of such Green Projects in their Green Bond Framework (see section 4.2) and in the Green Bond legal documentation. In case that the Green Projects are not identified at the date of issuance, the issuer shall describe the type and sectors and/or environmental objectives of the potential Green Projects.

Green Projects may include:

1. eligible green assets (including physical assets and financial assets such as loans), as well as the share of the working capital that can reasonably be attributed to their operation and, for the avoidance of doubt, including potentially both tangible and intangible assets;
2. eligible green capital expenditures;
3. eligible green operating expenditures related to improving or maintaining the value of eligible assets;
4. eligible green expenditures from sovereigns, sub-sovereigns and public agencies.

Eligible green expenditures (item 2, 3 and 4) shall qualify for refinancing with a maximum three [3] years look-back period before the issuance year of the bond. Eligible assets (item 1) shall qualify without a specific look-back period.

For the avoidance of doubt, a specific green asset or expenditure can only qualify as a Green Project for direct financing by one or several dedicated green financing instruments (such as bonds or loans) up to the combined equivalent of its full value. It is understood that green financing instruments can be refinanced by other such green financial products.

1.2. Green Bond Framework

The issuer shall produce a Green Bond Framework ("GBF") which confirms the voluntary alignment of green bonds issued following this GBF with the EU GBS and provides details on all the key aspects of the proposed use of proceeds and on its green bond strategy and processes.

The Issuer shall indicate the following elements in their GBF:

- 1 The environmental objectives of the EU Green Bond or EU Green Bond programme and how the issuer's strategy aligns with such objectives, as well as their rationale for issuing.
- 2 The process by which the issuer determines how Green Projects align with the EU Taxonomy with reference to section 4.1 and with the support of an accredited External Reviewer. Issuers are also encouraged to disclose any green standards or certifications referenced in project selection;

- 3 A description of the Green Projects to be financed or refinanced by the EU Green Bond. In case that the Green Projects are not identified at the date of issuance, the issuer shall describe where available the type and sectors of the potential Green Projects. Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail, that can be made available, information can be presented in generic terms or on an aggregated portfolio basis.
- 4 The process for linking the issuer's lending or investment operations for Green Projects to the EU Green Bond issued. The issuer shall track the amount allocated to Green Projects in an appropriate manner until such amount equals the net proceeds and document the allocation through a formal internal process;
- 5 A description of the Reporting including information on the expected frequency, the methodology and the assumptions to be used for the calculation of core impact metrics related to the EU Taxonomy and, if available, on any other additional impact metrics.

For the avoidance of doubt, it is understood that subsequent changes to the Taxonomy will not apply to outstanding EU Green Bonds (grandfathering). Conversely new issues shall be aligned with the most recent version of the Taxonomy and as relevant to their Green Projects.

The GBF shall be published on the issuer's website or any other communication channel before or at the time of the issuance of an EU Green Bond and shall remain available until maturity of such EU Green Bonds.

1.3. Reporting

Issuers shall report at least annually, until full allocation of the bond proceeds to Green Projects and thereafter, in case of any material change in this allocation. Reporting shall include:

- A statement of compliance with the EU GBS;
- The amount allocated to each Green Projects or Green Project categories; with the classification of such projects according to the EU Taxonomy or to EU Environmental Objectives as specified in the GBF;
- The nature of Green Projects (assets, capital expenditures, operating expenditures, etc.)
- The share between Green Project financing and refinancing;
- If applicable, the share of Green Projects financed by the Issuer;
- The actual or estimated environmental impact of the Green Projects based on metrics outlined in the GBF. If additional metrics are used to report on impact, issuers shall outline methodology and assumptions applied; Issuers shall report quantitative metrics wherever possible, over a defined reporting period (generally an annual period or over a Green Project's lifetime)
- The regional distribution of Green Projects
- The Green Bond Ratio¹

For the avoidance of doubt reporting may cover several EU Green Bonds, as relevant.

A proposed format for the reporting under the EU GBS is attached. Issuers can however adapt the format if necessary.

¹ The Green Bond Ratio, represents the 'total amount of green bonds outstanding divided by the total amount of debt outstanding at the end of the reporting period'. More information is provided in the recent TEG report on climate-related disclosures, page 32: https://ec.europa.eu/info/publications/190110-sustainable-finance-teg-report-climate-related-disclosures_en

1.4. Verification

Issuers shall appoint External Reviewers to confirm:

- before or at the time of issuance, through an initial External Review, the alignment of their GBF in accordance with section 4.1 and 4.2 of the EU GBS; AND
- after allocation of proceeds, through an External Review, the alignment of their EU Green Bond allocation and actual or estimated impact, as presented in the Reporting in accordance with section 4.3 of the EU GBS.

For the avoidance of doubt, an initial External Review can be valid for several bonds issued under a programme with the same GBF.

It is also understood that for transactions that are fully allocated at issuance (e.g. as in the case of refinancing) information on impact can be incorporated in the initial External Review. Conversely, when impact is not known at the time of full allocation, this information can be published in one or several focused updates to the final External Review.

External Review(s), and any subsequent ones, 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).

External Review provider(s) will be subject to accreditation² including 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.

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.

² Further information on the accreditation process can be found in section 4 of this report

REPORTING FORM

1. Basic Information

Issuer name:

Related Green Bond ISIN(s):

Accredited External Review provider's name:

Reporting period:

Publication date of reporting:

Frequency of reporting:

Next reporting planned for:

Reference to the Green Bond Framework applied:

Is the Green Bond/Are the Green Bonds still in compliance with the EU Green Bond Standard?

Yes

No

2. Scope and Approach of Reporting

The reporting contains the following elements *[templates below to be included in the reporting accordingly]*:

Allocation Reporting

Impact Reporting

Combined Allocation and Impact Reporting

Approach for impact reporting:

Project-by-project reporting

Portfolio-based reporting

3. Allocation Reporting Templates

3.1. Allocation to Green Project Sectors³

ISIN	Total Green Bond proceeds	Total Proceeds allocated so far	Proceeds allocated to Sector X	Proceeds allocated to Sector Y	Proceeds allocated to Sector Z
<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>

3.2. Additional information

[Please indicate regional allocation, i.e. where projects of allocated proceeds are located, and green bond ratio. Issuers shall provide relevant information in an appropriate manner, e.g. a pie chart with % numbers or in absolute terms]

4. Impact Reporting Templates

[Please select and fill out one of the templates below, as applicable. If the impact report relates to more than one Green Bond, please fill out one template per Green Bond and state the respective ISIN.]

4.1. Project-by-project Reporting

Project name	Project description	Sector and environmental objective	Total project cost	Share of financing	Amount of green bond proceeds allocated	Project start date/end date (if relevant)	Share of proceeds used for financing vs refinancing	Nature of green asset / expenditure	Impact metric ⁴ (absolute, annually ⁵) ⁶	Impact metric ^{2/7} (relative) ³

³ In addition to reporting on the allocation per sector, issuers are welcomed to provide more detail on a project level.

⁴ Provide a description of background on the methodology and assumptions used for the calculation of impact metrics, thresholds and indicators, or cross refer to those described in the Green Bond Framework.

⁵ Where appropriate: additional column for lifetime/lifetime impact of the project.

⁶ Please report only the pro-rated share of impact that corresponds to the project cost financed by the issuer (share of financing).

⁷ Please add column(s) for other impact metrics as relevant. [link to Harmonized Framework, GBP Resource Centre, Nordic Issuers Reporting]

<i>Wind Farm One</i>	<i>Construction, installation and operation of a windfarm with an annual generation capacity of x MW/GW</i>	<i>Renewable energy (wind energy) / Climate Change Mitigation</i>	<i>EUR 100 million</i>	<i>75%</i>	<i>EUR 75 million</i>	<i>2016 ongoing</i>	<i>100% financing</i>	<i>tangible asset (90% CAPEX, 10% OPEX)</i>	<i>x t CO2e emitted (based on y gCo2e/kwh)</i> <i>x t CO2e avoided</i>	

4.2. Portfolio-based Reporting

Portfolio name	Portfolio description	Sector and environmental objective	Total portfolio cost	Share of financing	Amount of green bond proceeds allocated	Portfolio start date/end date (if relevant)	Share of proceeds used for direct financing vs refinancing	Nature of green asset /Expenditure	Impact metric ⁸ (absolute, annually ⁹) ¹⁰	Impact metric ^{6/11} (relative) ⁷
<i>Solar energy portfolio</i>	<i>Installation of solar rooftop panels for 4000 private households with a total annual generation capacity of x MW/GW</i>	<i>Renewable energy (solar photovoltaic) / Climate Change Mitigation</i>	<i>EUR 40 million</i>	<i>90%</i>	<i>EUR 36 million</i>	<i>2017 ongoing</i>	<i>100% financing</i>	<i>Tangible asset, (100% CAPEX)</i>	<i>x t CO2e emitted (based on y gCo2e/kwh)</i> <i>x t CO2e avoided</i>	

⁸ Provide a description of background on the methodology and assumptions used for the calculation of impact metrics, thresholds and indicators, or cross refer to those described in the Green Bond Framework.

⁹ Where appropriate: additional column for lifetime/lifetime impact of eligible activity.

¹⁰ Please report only the pro-rated share of impact that corresponds to the portfolio cost financed by the issuer (share of financing).

¹¹ Please add column(s) for other impact metrics as relevant. [link to Harmonized Framework, GBP Resource Centre, Nordic Issuers Reporting]

