

FINANCING A SUSTAINABLE
EUROPEAN ECONOMY



EU GREEN BOND STANDARD



**Strategic Transactions Advisory
Systems LLC**

Your Partner in Green Projects
EUROPEAN GREEN FEEDER FUND
\$1 Billion for Green Projects

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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 any European or international issuer that is aligned with the EU GBS, and is therefore meeting the following requirements:
 1. The issuer's Green Bond Framework shall confirm the alignment of the green bond with the EU GBS;
 2. The proceeds, or an amount equal to such proceeds, shall be exclusively used to finance or refinance 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 approved³⁶ Verifier 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 approved Verifier.
- 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.

Green Bond Framework (GBF)

The issuer shall produce a Green Bond Framework ('GBF') which confirms the voluntary alignment of the 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 draft standard foresees inclusion of the use-of-proceeds to be specified in the legal documentation:

- 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 and, if applicable, qualitative or quantitative TSC and minimum safeguards with reference to section 4.1 and with the support of an approved Verifier. 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. Issuers are recommended to include information on whether the Green Projects contribute directly to the achievement of the Environmental Objective or whether they enable others. For Green Projects that contribute to climate change mitigation, issuers should also include information on whether the Green Projects are already near zero carbon or contribute to a transition. In cases where 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 manage the amount allocated to Green Projects in an appropriate manner, until such amount allocated equals the net proceeds and document the allocation through a formal internal process;
 5. A description of the Reporting (e.g. envisaged frequency, content, metrics), and if available the methodology and assumptions to be used for the calculation of key impact metrics.

PROPOSAL FOR EU GREEN BOND EMISSION

In March 2018, the European Commission (EC) published its Action Plan on Financing Sustainable Growth (Action Plan) which set out a comprehensive strategy to further connect finance with sustainability.

In Action 2 of the Action Plan, the EC committed to create standards and labels for green financial products.

In June 2018, the EC set up a Technical Expert Group on sustainable finance (TEG) comprising 35 members from civil society, academia, business and the finance sector, as well as 10 additional members and observers from the European Union (EU) and international public bodies

PROPOSAL FOR EU GREEN BOND EMISSION

- In December 2019, the EC presented the European Green Deal, an overarching framework and programme of actions for making the EU's economy sustainable.
- The European Green Deal resets the EC's commitment to tackling climate and environment-related challenges and it emphasises the key role the private sector will have to finance the green transition.
- It recognizes the EU Taxonomy as an important aspect and it also includes the potential development of an EU Green Bond Standard.

Annex 1: Draft Model of the EU Green Bond Standard



1 SCOPE OF THE EU GREEN BOND STANDARD (EU GBS)

The European Green Bond Standard ('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

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European Commission @EU_Commission · 6h

A historic first yesterday as we issued the first green bond under [#NextGenerationEU](#).

It's the world's largest green bond issuance ever.

It will fund a greener recovery from the pandemic while boosting sustainable finance markets.

More: europa.eu/!gku8TT [#GreenBond](#)



Johannes Hahn and 3 others

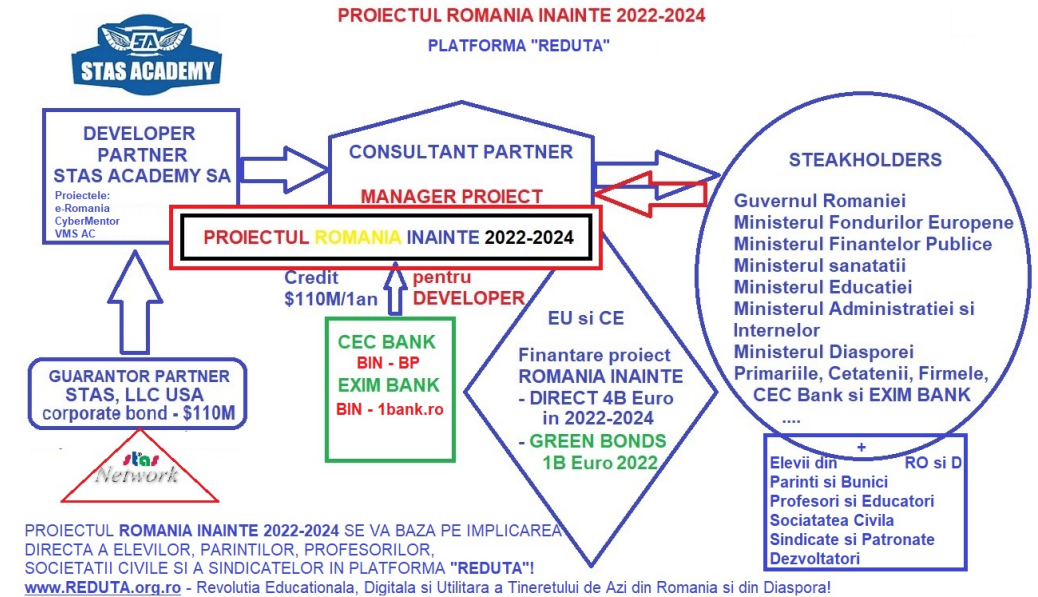
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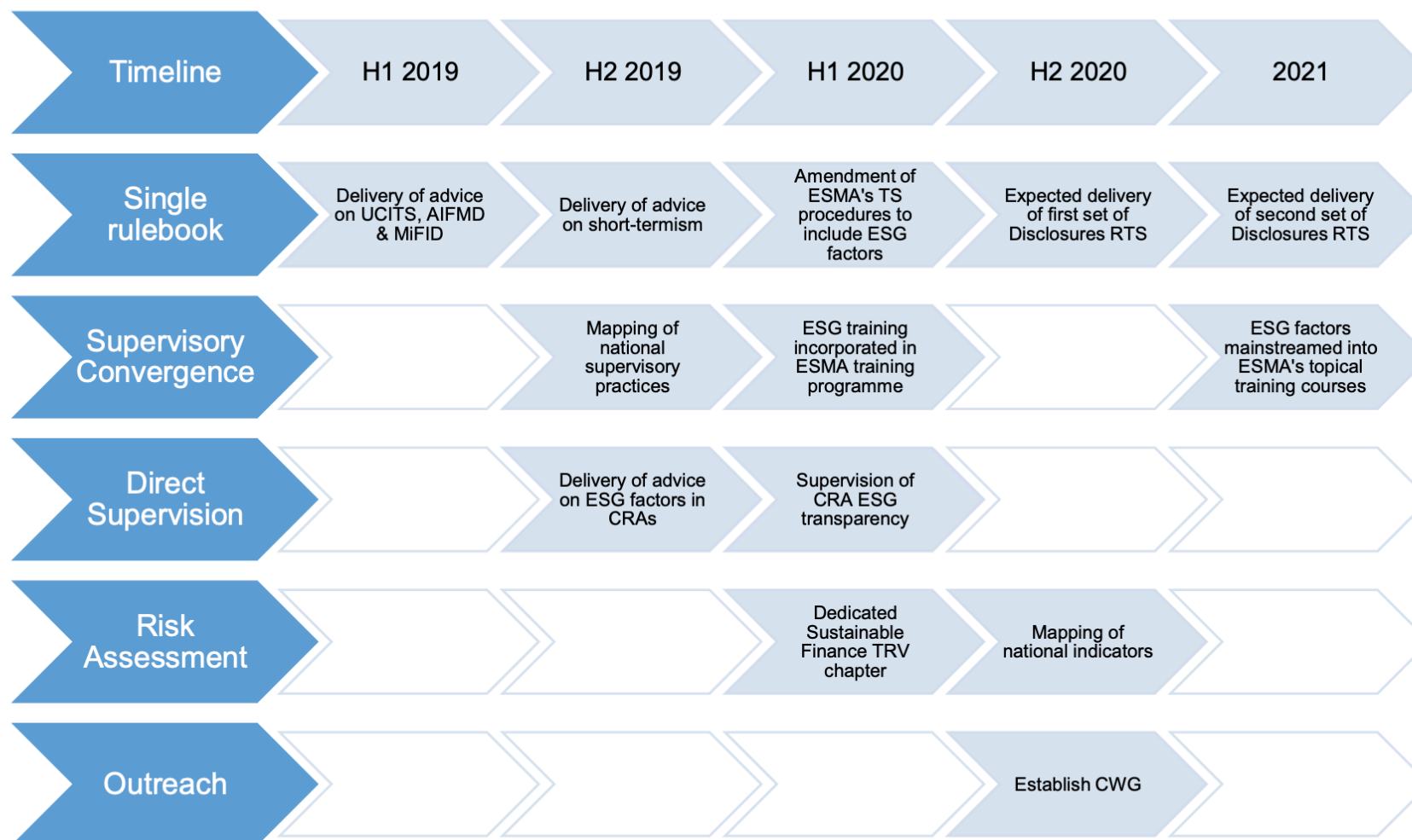


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SUSTAINABLE FINNACE FRAMEWORK -EU

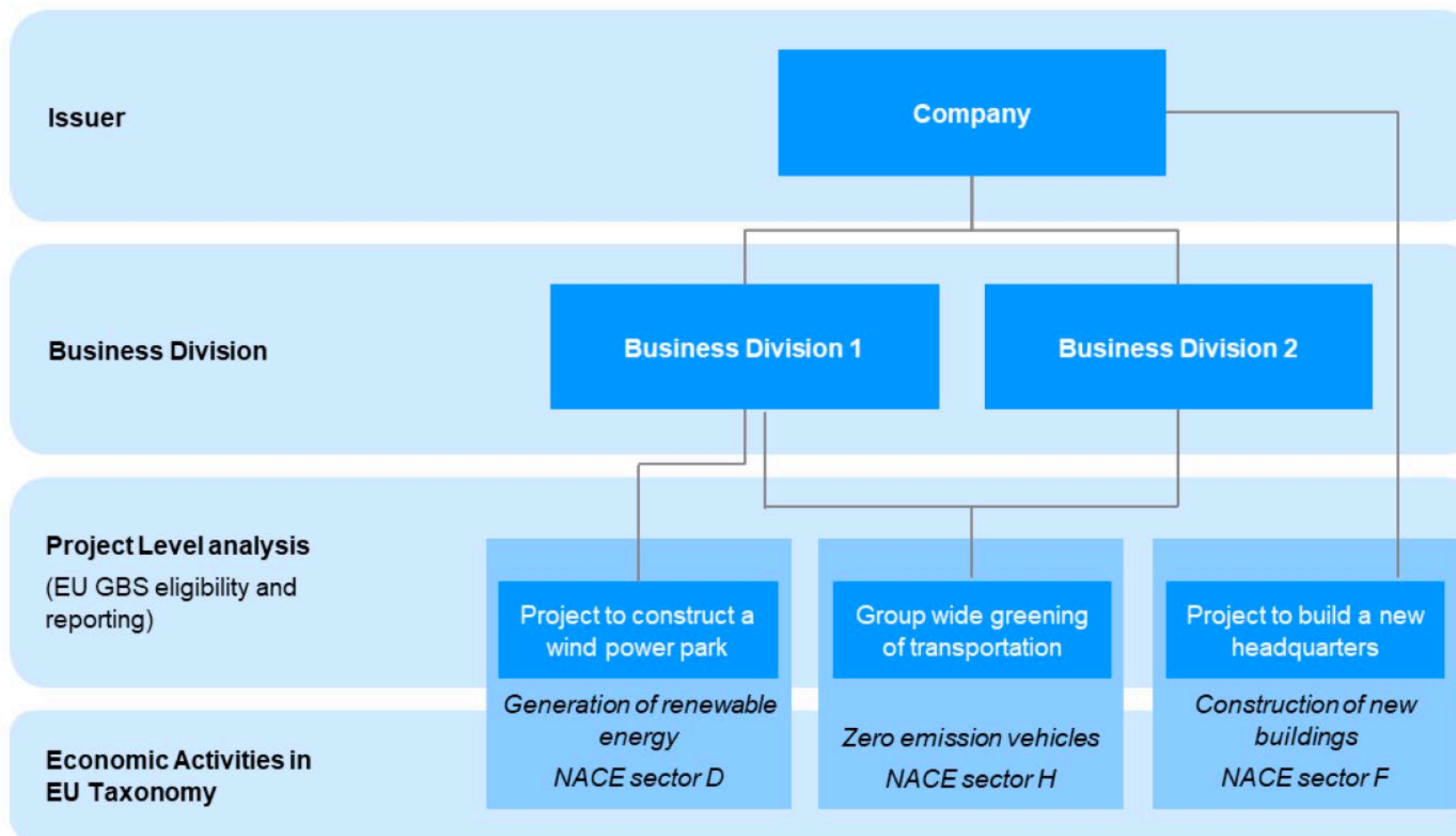
Indicative timeline for actions on Sustainable Finance



CORRESPONDENCE BETWEEN ACTIVITIES AND PROJECTS

- Assessing alignment with the EU Taxonomy is performed by economic activity rather than by sector, industry or company. The TEG recommendations are structured around the EU's so called NACE industry classification system²⁵ and the TEG has set TSC for economic activities within priority macro-sectors.
- This classification system was selected for its compatibility with EU Member States and international statistical frameworks and for its broad coverage of the economy.
- Although the EU Taxonomy is designed to identify environmentally sustainable economic activities using NACE codes, it can be applied at project level, which is the requirement under the EU GBS.
- **For a green bond, issuers may identify potential green projects in various parts of the business.** When assessing the eligibility of the green projects, the issuer needs to check the TSC relevant to the specific activity and related NACE code, while also taking into account the general EU Taxonomy Regulation requirements (exclusions and safeguards).
- The TEG Taxonomy report contains recommendations relating to the overarching design of the EU Taxonomy, as well as guidance on how users of the EU Taxonomy can develop EU Taxonomy

Relating a company's business operations to Green Projects and NACE codes



- Figure 3: Illustration of a procedural approach to DNSH and minimum safeguards**



3 CONDITIONS TRESHOLD

- When the EU Taxonomy refers to qualitative criteria (e.g. local, EU regulations, or international standards), the assessment and verification of DNSH and minimum safeguards could conclude positively on compliance when the following three conditions are met:
- 1. **Existence of the legally required environmental and/or social frameworks and permits** at project level. The regulatory alignment is the ultimate consequence of the fulfilment of a regulatory process that requires environmental and social impact analysis that very frequently end up in action plans.
- 2. **Existence of a risk analysis at project level** to assess the likelihood of the project causing significant harm or breaching minimum safeguards. However, when the issuer has a wider corporate due diligence system, the risk analysis can be considered solved by the existence of environmental and/or social impact reports that are typically related to the permitting process.
- 3. **Existence of mitigation action plans** whenever material controversies emerge. The TEG proposes the use of primarily internal, but, when relevant, also external databases to detect potential controversies. If they exist, the issuer should explain in the Green Bond Framework the mitigation plan adopted.

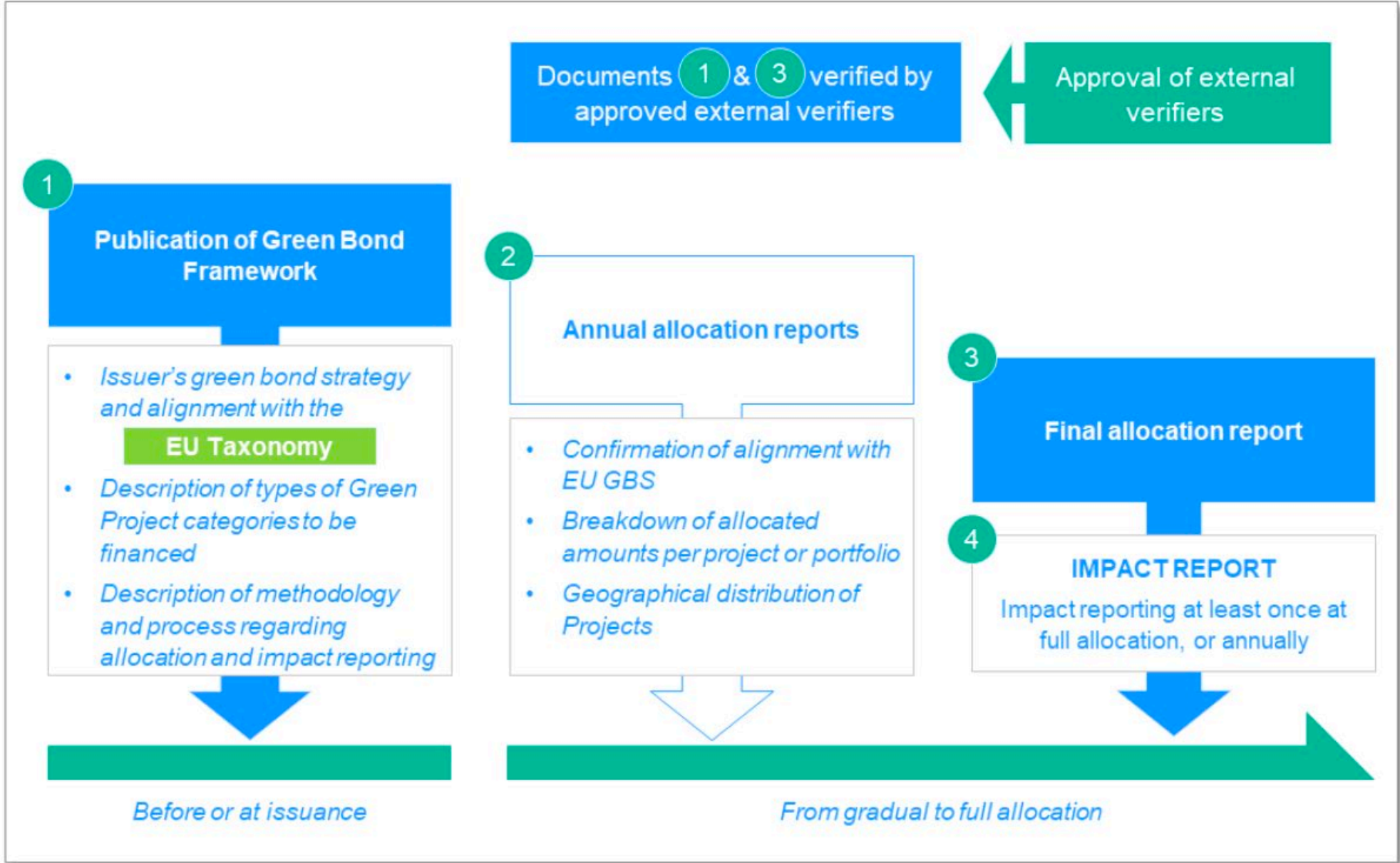
The EU Green Bonds Standards (GBS) and its benefits



- The TEG proposed that the EU GBS should be a voluntary standard proposed to issuers that wish to align with best practices in the market.
- It is designed to be 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), developed by the International Capital Market Association (ICMA). The proposed model sets out four core components:
 - (i) The alignment of the use-of-proceeds with the EU Taxonomy;
 - (ii) The content of a Green Bond Framework to be produced by the issuer;
 - (iii) The required Allocation and Impact Reporting; and
 - (iv) The requirements for external verification by an approved verifier²⁰.
- See Annex 1 for the full text of the proposed EU GBS.



FIGURE 1: Highlights of EU GBS





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