EU TECHNICAL EXPERT GROUP ON SUSTAINABLE FINANCE

USABILITY GUIDE

TEG PROPOSAL FOR AN EU GREEN BOND STANDARD

March 2020

Introduction

Context and background information

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. The TEG included four work areas developing recommendations for:

- an EU classification system – the so-called **EU Taxonomy** – to determine whether an economic activity is environmentally sustainable;
- an **EU Green Bond Standard**;
- methodologies for EU climate **benchmarks** and disclosures for benchmarks; and
- guidance to improve **corporate disclosure** of climate-related information.

The TEG published its interim report on an EU Green Bond Standard (EU GBS) in March 2019 for public feedback. After evaluation of the feedback, the TEG published its final report in June 2019 with recommendations to the EC on principles as well as a draft model of an EU GBS (TEG EU GBS report)[1]. The TEG proposes that 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 should qualify as an EU Green Bond.

The proposed draft model links the use-of-proceeds of EU Green Bonds to the EU Taxonomy Regulation[2], which set up a classification system for environmentally sustainable economic activities. Under the EU Taxonomy Regulation, for an economic activity to be considered environmentally sustainable it has to (i) substantially contribute to one of the six environmental objectives determined under the EU Taxonomy Regulation, (ii) do no significant harm to any of the other environmental objectives, (iii) be carried out in compliance with minimum safeguards and (iv) comply with technical screening criteria.

When the TEG EU GBS report was published in June 2019, the EU Taxonomy Regulation was still in negotiation. In December 2019, the European Parliament and the Council reached a political agreement on this proposal. In light of this political agreement, the TEG has amended the draft model of an EU GBS to reflect the latest agreement (Annex 1). One of the major changes relates to the expanded definition of minimum safeguards that activities have to comply with in order to qualify as environmentally sustainable. In the political agreement, the "minimum safeguards" were extended to

[1] https://ec.europa.eu/info/files/190618-sustainable-finance-teg-report-green-bond-standard_en.
[2] Political Agreement reached by EU co-legislators on 17 December 2019 on a *Proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment 2018/0178 (COD)*, see: https://www.consilium.europa.eu/en/press/press-releases/2019/12/18/sustainable-finance-eu-reaches-political-agreement-on-a-unified-eu-classification-system/.

include alignment with the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights.

In December 2019, the EC also presented the European Green Deal[3], 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.

Moreover, in December 2019 the European Commission's Joint Research Centre (JRC) published a draft proposal for the EU Ecolabel criteria for retail financial products[4]. The JRC's proposal suggests that the EU Ecolabel not be awarded to a financial product itself but to the financial service being provided by the manufacturer of the green financial product. The JRC recommends that the manufacturers of financial products use the EU GBS to demonstrate alignment with the taxonomy of the underlying components of their financial products (e.g., green bonds included in a bond fund carrying the EU Ecolabel). In February 2020, the European Securities and Market Authority (ESMA) published its Strategy on Sustainable Finance[5]. ESMA lays out its key role in supporting the transition of the financial system by reorienting private capital to more sustainable investments, fostering more transparency and long-termism in the economy. In this document, ESMA clarifies its willingness "to accept new supervisory mandates, if requested, such as for example in relation to the European Green Bonds Standard"[6].

In March 2020 the Final report of the Technical Expert Group on Sustainable Finance for the EU Taxonomy[7] (TEG Taxonomy report) is being published, setting out the TEG's final recommendations for the EC. The TEG Taxonomy report contains recommendations to the overarching design of the EU Taxonomy as well as guidance for its users. In addition to the summary of the economic activities covered by the technical screening criteria, the TEG Taxonomy report is supplemented by a technical annex containing a full list of technical screening criteria for economic activities which can substantially contribute to climate change mitigation or adaptation. Additional technical screening criteria for the four remaining environmental objectives (sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; and protection and restoration of biodiversity and ecosystems) will be developed by the Platform on Sustainable Finance in the next 20 months[8].

This "EU Green Bond Standard Usability Guide" (Guide) offers recommendations from the TEG, with its views on the practical application of the EU GBS, as it was described by the TEG EU GBS report. This Guide aims to support potential issuers, verifiers and investors of EU Green Bonds. It provides guidance reflecting the latest changes in the draft model of the EU GBS. As described in the TEG EU GBS report, the TEG proposes that the use of EU GBS remains voluntary. Issuers of green bonds

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[3] https://ec.europa.eu/info/sites/info/files/european-green-deal-communication_en.pdf.
[4] https://susproc.jrc.ec.europa.eu/Financial_products/docs/20191220_EU_Ecolabel_FP_Draft_Technical_Report_2-0.pdf.
[5] https://www.esma.europa.eu/sites/default/files/library/esma22-105-1052_sustainable_finance_strategy.pdf.
[6] *Idem*, p. 8.
[7] https://ec.europa.eu/info/files/200309-sustainable-finance-teg-final-report-taxonomy_en
[8] The Platform on Sustainable Finance is multi-stakeholder platform of experts convened by the European Commission as mandated by Article 15 of the EU Taxonomy Regulation.

that do not want to use the term ‘EU Green Bond’ and prefer opting for other market practices are not obliged to follow the four components of the EU GBS.

Outlook

The EC is planning to hold a public consultation for three months from mid-March. This will form the basis for the Renewed Sustainable Finance Strategy that will be presented in the third quarter of 2020 as announced in the European Green Deal. Part of the consultation will be dedicated to a possible legislative initiative on an EU Green Bond Standard. The draft model of the EU GBS, developed by the TEG, will form the basis of the consultation. After evaluation of the feedback and an internal impact assessment, the EC will publish its decision on whether a legislative approach will be pursued and what form the final EU GBS should have. Green bond market participants are encouraged to participate in the consultation.

> This Guide represents the overall view of the members of the TEG, and although it represents such a consensus, it may not necessarily, on all details, represent the individual views of member institutions or experts. The views reflected in this Guide are the views of the experts only. This Guide does not reflect the views of the EC or its services, nor does it pre-empt any EC action on the EU GBS.

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[16] Appointed in a personal capacity.
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1 The EU GBS and its benefits

1.1 WHAT IS THE EU GBS?

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;

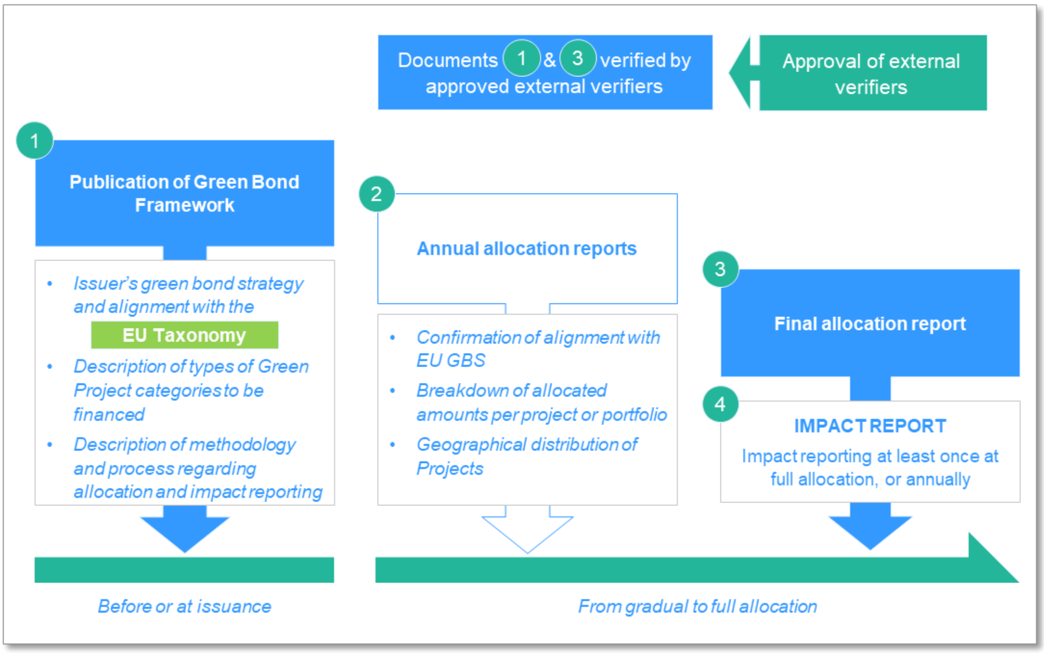
(ii) The content of a Green Bond Framework to be produced by the issuer;

(iii) The required Allocation and Impact Reporting; and

(iv) The requirements for external verification by an approved verifier[20].

See Annex 1 for the full text of the proposed EU GBS.

FIGURE 1: Highlights of EU GBS



[20] Here "approved" is intended to mean either registered, authorised or supervised. Initially for a period of up to 3-years after launch of the EU GBS (in 2020), the verifier is proposed to apply to a Voluntary Interim Registration Scheme, put in place with support from TEG members. Subsequently, the verifier may be registered, authorized or supervised by a European Supervisory Authority such as ESMA (as foreseen in the TEG EU GBS report).

1.2 HOW WILL IT BE USED?

The TEG proposes a voluntary application of the EU GBS by market participants. The EU GBS can be used to finance projects in the EU as well as outside the EU. It can be used for any type of listed or unlisted bond or capital market debt instrument by any public or private issuer.

1.3 HOW WAS IT DEVELOPED?

One element of the TEG's mandate was to provide a report to the EC regarding a potential EU GBS. After having assessed the development of the green bond market as well as the barriers to the further development of that market, the TEG has proposed an EU GBS mainly based on existing market practice like the Green Bond Principles and the Climate Bonds Standard purveyed by the Climate Bonds Initiative (CBI). However, the EU GBS includes additional elements and guidelines to address the barriers to development.

1.4 WHAT ARE THE BENEFITS OF THE EU GBS?

One of the aims of the Action Plan is to reorient capital flows towards sustainable investment. EU Green Bonds are a capital market instrument that is fully aligned with that aim. Green bonds represent a still limited but growing share of the total bond market with issuance of approximately EUR255bn in 2019 (53% higher than 2018) and expected to reach about EUR323bn in 2020[21].

The EU GBS should not only aid in overcoming the biggest barriers to further grow this market but also create a strong foundation to accelerate the flow of capital towards the EU's environmental objectives.

Table 1: EU GBS response to barriers to green bond market development (*Source: TEG EU GBS report*)

Barriers to green bond market development	How the EU GBS and related recommendations seek to address these barriers
Lack of green projects	Linkage with the EU Taxonomy clarifies what is green and what it means to transition, thus making it easier to identify eligible green projects and assets for refinancing. Further, it supports potential policy measures that would directly increase real economy investments in green assets and operations.
Issuers' concerns with reputational risks and green definitions	The EU GBS builds on the EU Taxonomy to clarify green definitions. It also foresees a robust registration scheme for external verifiers and a clarification of their role and responsibilities to verify EU Taxonomy alignment aiming to reduce controversies, and thus reputational risks for issuers. Furthermore, reporting is expanded and standardised, requiring issuers to report on impact as well as clarify up front their impact reporting methodology.

[21] ICMA based on data from Environmental Finance.

Absence of clear economic benefits for issuers	Standardization and a proposed endorsement by the EC, lay the basis for policymakers to design policies and instruments to incentivise green bond issuance.
Complex and potentially costly procedures for reporting and external review	Standardised verification processes with a clear scope of services focusing on the essential components are expected to streamline the verification process, avoid duplication of effort and, ultimately, reduce costs of external reviews.
Labour intensive reporting procedures	The EU GBS streamlines the reporting requirements by providing clarity on what is necessary in the Green Bond reporting. It simplifies the reporting requirements by distinguishing between the Allocation Reporting, which needs to be verified, and the Impact Reporting, for which verification is encouraged, but not required. Furthermore, only one Allocation Report is necessary for Green Bond Programmes (programmes with several bond issuances under the same Green Bond Framework).
Uncertainty on the type of assets and expenses that can be financed	The EU GBS defines and broadens the scope of eligible expenditures.

2 A "Use-of-Proceeds" approach

2.1 WHAT IS A "USE-OF-PROCEEDS" APPROACH?

The international bond markets are mainly used to raise capital for general (corporate or public) purposes, based on the risk profile of the issuer, represented by its credit rating and the remuneration offered in the form of interest paid. Traditional bond investors focus on these parameters rather than on the use-of-proceeds, i.e. how issuers will actually employ the funds being raised. Bonds are also therefore typically (re)financing instruments where capital is raised on the strength of the entire balance sheet of the issuer and the level of debt it can support.

Green bonds represent a considerable innovation, through their focus on green use-of-proceeds, providing transparency for investors on the green projects that are being financed or refinanced, as well as additional information on the management of proceeds, impact reporting and external reviews. Green bonds have provided bond investors the capacity to become involved in corporate environmental strategies. It has also enabled bond markets to become a powerful force in green finance, notably including climate mitigation finance.

The EU GBS incorporates the use-of-proceeds approach along with a clear interpretation of other innovative aspects of green bonds[22].

2.2 WHY DOES THE TEG PROPOSE A "USE-OF-PROCEEDS"?

Building on best practices in the market, the TEG sees two reasons for a use-of-proceeds approach.

[22] Please note that it is general market practice for green bonds to be legally no different from regular bonds, and therefore use-of-proceeds are technically for general corporate purposes and finance the entire balance sheet of a company. The issuer promises to spend an equivalent amount on the projects as outlined in the green bond framework.

First, a use-of proceeds approach (and the subsequent verification) allows for an exceptional degree of transparency and enables bond markets to become a powerful force in green and climate mitigation finance. Clarity on use-of-proceeds tends to facilitate impact reporting that aligns real economy investments and outcomes with financing. Furthermore, the Green Bond Framework is expected to include information about the issuer's overall sustainability strategy and about the coherence between the EU Green Bond and its use-of-proceeds with the overall strategy.

Second, a use-of-proceeds approach allows any company to issue green bonds, regardless of their main business activity, as long as they finance eligible green projects, as defined below. For example, a pharmaceutical company could issue a green bond to finance the construction of their environmentally sustainable headquarters. A use-of-proceeds approach also allows any company to use green bonds to finance its transition to an environmentally sustainable business model. For example, a utility company wishing to green (i.e. make more environmentally sustainable) its energy production by constructing wind farms to increase the share of renewable energy in its energy mix.

2.3 WHY DOES THE EU GBS REQUIRE ALIGNMENT OF "USE-OF-PROCEEDS" WITH THE EU TAXONOMY?

The EU Taxonomy helps translate EU policy commitments, including the Paris Agreement and the UN Sustainable Developments Goals (SDGs), for use by capital markets. The EU Taxonomy or "unified classification system" bridges the gap between international goals and investment practice, clearly signalling the types of activities that are consistent with the low-carbon transition, adaptation and other environmental objectives.

The TEG believes that the EU Taxonomy puts environmental data in context and helps investors to understand which companies are contributing to the low-carbon transition. The EU Taxonomy also helps investors to understand which companies are building resilience to climate change and to identify those whose carbon footprints and transition measures are actively contributing to environmental sustainability and are, therefore, more compatible with the policies at stake.

As highlighted by the Recitals of the EU Taxonomy Regulation, the EU Taxonomy is recognised as "the most important and urgent action envisaged by the EU Action Plan" for Sustainable Finance, and an important aspect of the EU Green Deal package. The key environmental objectives are reflected in the technical framework, and the real economy sectors targeted for policy reform under the EU Green Deal have also been recognised as critical by the TEG.

Applying the provisions of the EU Taxonomy to define project eligibility regarding the EU GBS is the suitable way to ensure consistency between the project financed and the EU's long-term environmental objectives.

3 Identifying eligible Green Projects

3.1 HOW ARE PROJECTS DEFINED IN RELATION TO THE EU TAXONOMY?

Proceeds from EU Green Bonds should finance "Green Projects" defined as those projects that are aligned with the requirements as set out in the EU Taxonomy. This means that Green Projects should:

i. Contribute substantially to at least one of **the six environmental objectives** of the EU Taxonomy Regulation[23]:
   1. Climate change mitigation;
   2. Climate change adaptation;
   3. Sustainable use and protection of water and marine resources;
   4. Transition to a circular economy;
   5. Pollution prevention and control;
   6. Protection and restoration of biodiversity and ecosystems.

ii. Not significantly harm any of the these objectives;

iii. Comply with minimum safeguards;

iv. Comply with Technical Screening Criteria (TSC).

The TEG proposes two forms of flexibility for the EU Taxonomy alignment:

- First, for specific cases where the TSC may not be directly applicable as a result of the innovative nature, the complexity, the location and/or other legitimate factors of the Green Project(s).
- Second, as the EU Taxonomy will be developed progressively over time, for cases where the TSC have not yet been developed, such as for example for specific sectors or the four outstanding environmental objectives.

In these cases, a registered or supervised verifier shall confirm that the Green Projects i) contribute substantially to at least one of six environmental objectives of the EU Taxonomy, while ii) not significantly harming any of the other objectives, and iii) complying with minimum safeguards. For transition and enabling activities, these cases should nonetheless meet the performance and 'avoiding-of-lock-in' requirements as set out in the EU Taxonomy[24]. In addition, the verifier or issuer should inform the Platform on Sustainable Finance for their future consideration.

[23] The EU Taxonomy provides for economic activities to contribute substantially either directly or by enabling other activities to make substantial contribution. For climate change mitigation activities TEG proposes that activities substantially contribute directly if they are already low-carbon or if they contribute to a transition to low-carbon.
[24] Climate change mitigation transition activities shall (i) have greenhouse gas emission levels that correspond to the best performance in the sector or industry; (ii) does not hamper the development and deployment of low-carbon alternatives; and (iii) does not lead to a lock-in in carbon-intensive assets considering the economic lifetime of those assets. Enabling activities for any environmental objective shall: (i) not lead to a lock-in in assets that undermine long-term environmental goals, considering the economic lifetime of those assets; and (ii) have a substantial positive environmental impact on the basis of lifecycle considerations.

Further guidance on applying the Taxonomy can be found in section 4 of this Guide and in the TEG Taxonomy report in section 2 (Taxonomy design) and in the Technical Annex.

3.2 WHAT CAN BE INCLUDED IN A PROJECT?

Green Projects can include green assets and green expenditures that contribute to improving and maintaining the value of such green assets. More specifically:

- **Green assets** can include physical assets and financial assets such as loans. Green assets can be tangible or intangible, and they can include the share of working capital that can reasonably be attributed to their operation.
- **Green expenditures** can include any capital expenditure (CapEx) and selected operating expenditures (OpEx) such as maintenance costs related to green assets, that either increase the lifetime or the present or future value of the assets, as well as research and development (R&D) costs. For the avoidance of doubt, OpEx such as purchasing costs and certain leasing costs would not normally be eligible, except in specific and/or exceptional cases as may be identified in the EU Taxonomy Regulation and/or future related guidance.
- **Green expenditures for sovereigns and sub-sovereigns** can also include relevant public investments, subsidies and expenditures.

3.3 CAN PROJECTS BE REFINANCED?

Bonds are frequently used to refinance assets that may have a longer operating lifetime than bonds' tenors. EU Green Bonds should be no different in that regard:

i. Eligible green assets shall qualify for refinancing without a specific look-back period, provided that at the time of issuance they follow the relevant eligibility criteria.
ii. Eligible green OpEx shall qualify for refinancing with a maximum three-year look-back period before the issuance year of the bond.

Table 2: High level examples of eligible green projects

Example 1 – Physical assets (windfarm)

Company A develops, constructs and operates windfarms. It is planning to build a portfolio of six facilities, amounting 500 MW and looks for financing sources. As a windfarm is a **physical green asset,** Company A is looking to diversify its financing sources and plans to issue a Green Bond under the EU GBS. In addition, the financed amounts could include costs for connecting the project with grid.

Example 2 – Financial green assets (mortgage loans)

A bank is looking to finance a portfolio of green real estate mortgages. The bank can do it by issuing green bonds, either not secured by these green mortgages (e.g. senior green bonds), or secured by these green mortgages (e.g. covered bonds, asset-backed securities, etc.). The green mortgages are the **financial green assets,** which are ultimately linked to real economy green investments.

Example 3 – Research and Development

A power equipment manufacturer conducts R&D to develop a new generation of more efficient wind farm technology. R&D expenses, including CapEx and associated OpEx, may be financed via a green bond.

Example 4 – Leasing - Real Estate (capitalization)

The owner (lessor) or financier of real estate can issue an EU Green Bond against the asset, whereas the occupier (lessee) of the building would not. Similarly, where the owner invests in a green refurbishment (expenditure that can be capitalized) this could be financed via a green bond.

Example 5 – Refinancing, asset-related costs

Hydropower plant: A power producer owns and uses several hydro power plants that it has built or acquired during the last 20 years. The company may refinance the acquisition and building costs, as long as the plants meet the EU Taxonomy criteria and continue to be in use. Also, they may include in the use-of-proceeds maintenance, efficiency improvement and upgrading costs accumulated during the three years preceding the issuance of the bond. The operating costs for running the plants cannot be included.

4 How to apply the EU Taxonomy at Project level

4.1 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 system[25] 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

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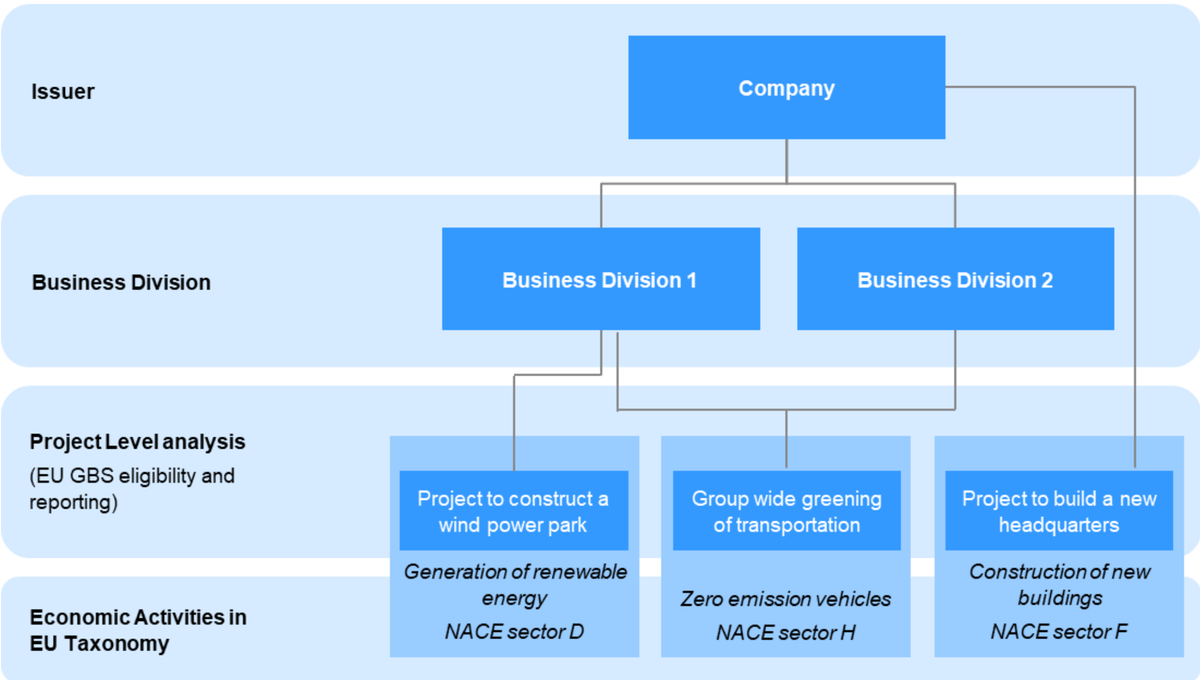
[25] *Nomenclature des Activités Économiques dans la Communauté Européenne* (NACE), see: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Statistical_classification_of_economic_activities_in_the_European_Community_(NACE)/fr.

disclosures. The TEG Taxonomy report is supplemented by a Technical Annex containing a full list of TSC for economic activities which can substantially contribute to climate change mitigation or adaptation, including an assessment of do not significant harm (DNSH) to other environmental objectives. The TSC can be quantitative (metrics and thresholds) or qualitative principles or process-based criteria.

The universe of economic activities in the EU Taxonomy uses NACE codes that capture 21 broad sectors, with four levels of sub-codes. The TEG recognises that NACE is neither widely used by corporates nor in the financial services industry. In order to help users of the EU GBS understand in practice how to use NACE codes, Figure 2 below illustrates at a high level how a company may relate its business operations to eligible green projects and the relevant codes referenced in the EU Taxonomy. The table contained in Annex 4 of this Guide aims to give further practical and more detailed examples of how to map projects to relevant NACE codes. As such these are examples of navigating the EU Taxonomy, rather than reiterating all relevant features within it.

Please see the TEG Taxonomy Report Technical Annex for the full list of criteria for Substantial Contribution and DNSH assessment for the relevant activity and for further guidance on the use of NACE codes, including a spreadsheet which contains mapping to some additional classification systems.

Figure 2: Relating a company's business operations to Green Projects and NACE codes



4.2 HOW TO ASSESS DNSH AND MINIMUM SAFEGUARDS AT PROJECT LEVEL

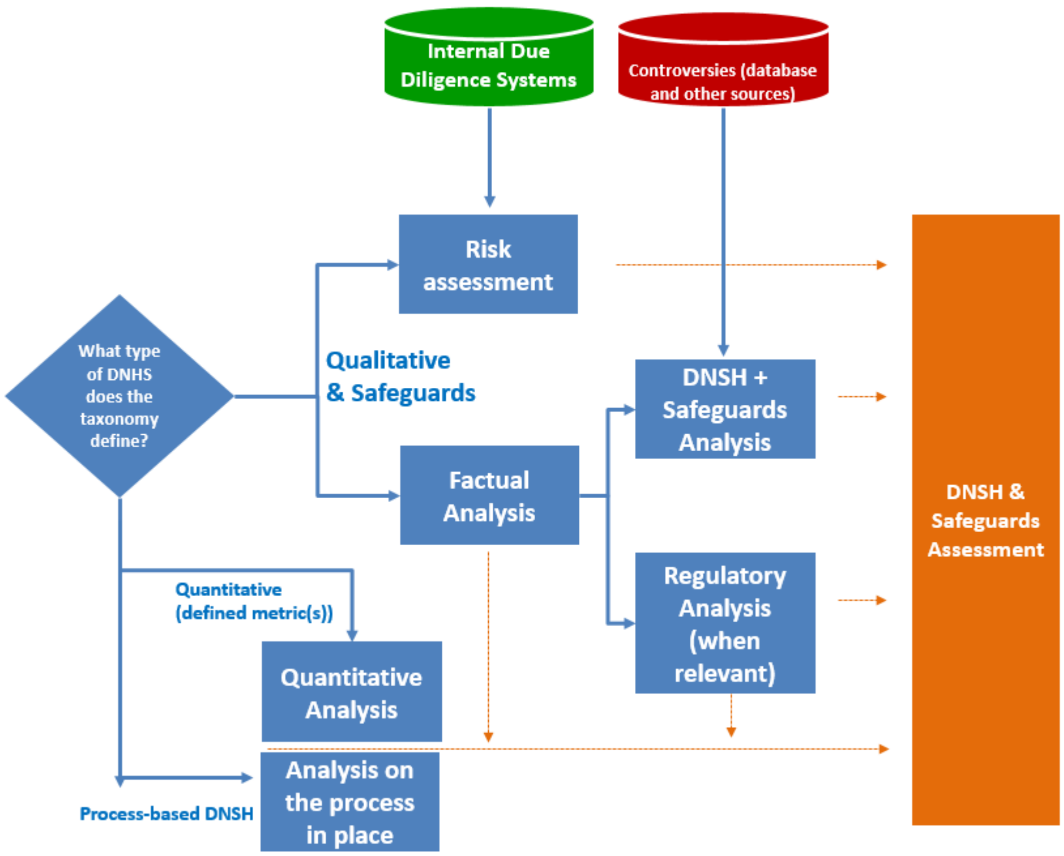
Projects eligibility depends on their **alignment with the EU Taxonomy requirements**, which include a DNSH positive assessment and compliance with the minimum safeguards laid down in the EU Taxonomy Regulation. Additionally, the TEG has proposed that the EU GBS should require **external verification** of the alignment of the Green Bond Framework and projects with the EU Taxonomy.

For DNSH to climate change mitigation, the criteria are a mixture of quantitative and process-based, qualitative criteria. For DNSH to climate change adaptation, the criteria are principles-based. For DNSH to objectives 3-6, the criteria are primarily qualitative and defined by EU Taxonomy Regulation.

Minimum safeguards are defined as procedures implemented by the issuer to ensure alignment with international standards, specifically the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and International Labour Organisation's declaration on Fundamental Rights and Principles at Work and the International Bill of Human Rights.

Consequently, the TEG suggests that issuers and verifiers may take **a procedural approach to DNSH and minimum safeguards assessment and verification for EU GBS** that may be sufficient to provide comfort to investors:

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



When the EU Taxonomy provides metrics and thresholds, the assessment and verification of DNSH can be supported by **quantitative analysis** against those metrics and thresholds, where details on the expected projects or project types are available (commonly *ex ante* estimates; could also be based on real outcomes).

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. It they exist, the issuer should explain in the Green Bond Framework the mitigation plan adopted.

The existence of **formalized due diligence systems** for environmental and social issues could facilitate a process-based approach both for issuers to decide on the projects eligibility criteria and for verifiers to assess compliance.

Due diligence systems are dynamic and on-going processes and they are primarily preventive. Their purpose is first and foremost to avoid causing or contributing to adverse impacts on people, the environment and society, and to seek to prevent adverse impacts directly linked to operations, products or services through business relationships. When involvement in adverse impacts cannot be avoided, due diligence should enable enterprises to mitigate them, prevent their recurrence and, where relevant, remediate them.

Table 3: High level examples of DNSH and minimum safeguards due diligence

Example 1 Due diligence for a large mature company

Company A, which constructs and operates renewable energy projects worldwide, has a solid track record of ESG management and it runs well stablished environmental management systems and human rights due diligence systems. The corporate policies and systems provide a strong level of comfort. Consequently, the assessment of project eligibility and its verification could look at the existence of the required permits in line with the DNSH requirements and the controversies, if any, related to the project under analysis.

Example 2 Due diligence for a mid-sized relatively young company

Company B is a mid-size and relatively young company that constructs and operates solar farms worldwide. It lacks internal certified environmental due diligence systems. It is planning to build a 100 MW photovoltaic plant close to a rainforest.

The company plans to finance the construction with an EU Green Bond or a loan that a bank will include in its EU Green Bond.

The company should be able to assess DNSH and Safeguards at project level, with transparency on wider corporate strategy, and provide sufficient information to investors and verifiers about potential local impacts.

For that purpose, the company should:

i) design and implement a methodology to assess impacts at project level, elaborating the relevant KPIs in line with the taxonomy criteria; ii) analyze existing and emerging controversies related to the project; iii) apply selection criteria that assure conceptual alignment with the EU Taxonomy; iv) subject the whole process and conclusions to external verification; and v) disclose publicly the conclusions about eligibility

5 How to design a Green Bond Framework

In the context of the EU GBS, the following guidance offers support to market participants by summarising and briefly interpreting key features of the EU Green Bond Framework ("GBF"), including the illustrative GBF Template. The EU GBS is a voluntary standard that offers an easy way for issuer to demonstrate 100% alignment with the EU Taxonomy. However, to use this label for its bond or programme, an issuer must follow all of the EU GBS requirements. This Guide endeavours to clarify what is required as opposed to recommended or desirable in a GBF.

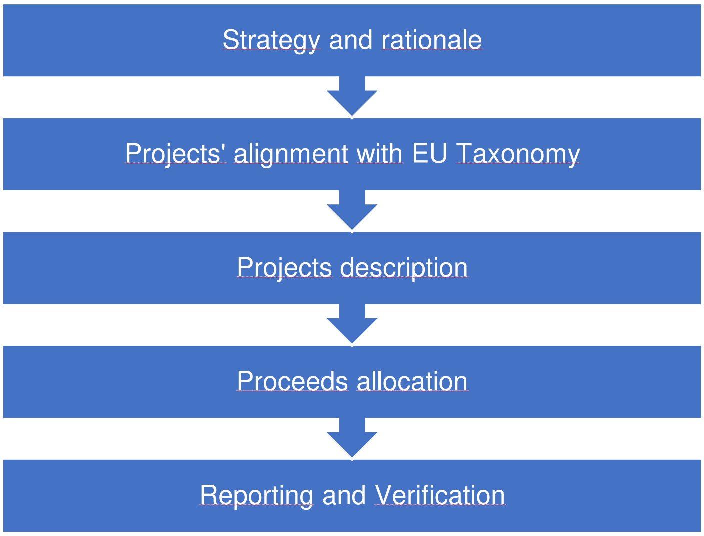
5.1 WHY IS A FRAMEWORK REQUIRED?

The GBF is a required publication under the EU GBS and a tool for issuers to explain to investors and other market participants their approach and disclosures for bond issuance aligned with the EU GBS. This includes the green features of underlying projects or activities, the fit with the issuer's overall strategy, management process, reporting, plans for external review and other features of green bond issuance. This includes familiar topics for those experienced with frameworks aligned with the ICMA Green Bond Principles. For those electing to use the EU GBS, it could offer additional value relative to other standards, for instance by requiring certain reporting and external review features and by referencing the EU Taxonomy. The GBF aims to efficiently highlight such value-added with a structured template to explain:

- **"Why"** (including green strategy);
- **"What"** (green projects, reporting, review, etc.); and
- **"How"** (process for referencing green activities, verification approach, etc.).

5.2 WHAT IS THE MAIN CONTENT OF THE GBF?

The GBF includes an issuers' answer to five main questions listed and explained below, reflecting the structure of the GBF Template (*Annex2*).



5.2.1 How does the issuer's overall strategy align with the environmental objectives of the EU Green Bond?

In this section, the issuer should explain how the EU Green Bond issuance contributes to their overall strategy, and specific environmental objectives (at least one of the 6 objectives set out in the EU Taxonomy Regulation) to be associated with the bond or bond programme. This reflects the premise that the EU Green Bonds can be strategic instruments, associated with environmental impact. The section serves to demonstrate the issuer's commitment to environmental outcomes, with EU Green Bonds an integral part of their strategy.

Companies are encouraged to disclose overall corporate information, notably a breakdown by activities and environmental objectives. Companies wishing to exhibit best practices are encouraged to also describe to what extent all their business areas have environmental impacts and how they manage them.

This section offers an opportunity to explain the environmental targets issuers have set for themselves (e.g. greenhouse gas reduction targets), or which international environmental frameworks or sustainability commitments they are aligned with (e.g. the Paris Agreement, UN SDGs, Principles for Responsible Banking / Insurance). It may provide added color on performance indicators for the overall environmental strategy, and may refer to sustainability ratings.

Moreover, the TEG recommends that when companies are subject to the Non-Financial Reporting Directive (NFRD) and wish to issue an EU Green Bond, they should include information on their overall EU Taxonomy alignment (e.g. the share of their turnover and of CapEx, and, if relevant, OpEx, aligned with the EU Taxonomy) in the GBF as well.

5.2.2 How are Green Projects selected and aligned with the EU Taxonomy?

Here the issuer should explain the governance for its EU Green Bond, namely the process for determining alignment with the EU Taxonomy, once available for the type of activity in question. It is understood that issuers may not have details on specific projects to be financed at the time of issuance. In such circumstances, issuers should specify the type of project they envisage and how selection criteria align with the EU Taxonomy.

This part of the GBF requires issuer comments that confirm the intent to apply the EU Taxonomy, where applicable to the activities referenced by the bond: i) substantial contribution to environmental objectives, ii) do no significant harm to environmental objectives, iii) minimum safeguards, and iv) technical screening criteria. These four fundamental features of the EU Taxonomy Regulation are deemed core to green alignment and should all be addressed.

In situations where the issuer applies discretion on the interpretation of EU Taxonomy alignment as described in 3.1, the issuer could offer additional information to clarify relevant reference points, benchmarks or targets.

Issuers may also articulate the benefits of their investment in relation to management of environmental risks that are not directly covered by the EU Taxonomy.

Furthermore, it is recommended that the issuer explains who or which internal bodies will be responsible for managing the EU Green Bond issuance, including selecting the Green Project(s) and determining whether or not they are compliant with the EU Taxonomy criteria. This typically includes identifying the internal committee(s) or decision-makers, and indicating their role and area of expertise.

5.2.3 Which Green Projects, or types of project(s), are to be financed or refinanced?

This section should describe what type of Green Projects, or potentially specific projects, are to be financed or refinanced by the EU Green Bond. It should provide details of project alignment with the EU Taxonomy, or, if not available or applicable, then the alternative criteria or performance thresholds referenced.

In cases where the exact Green Projects are not known to the issuer at the time of publishing the GBF, the issuer should indicate the types and sectors of projects that are planned to be eligible, and/or relevant environmental objectives of the projects. In this case, the issuer should provide a more precise description of the nature of the Green Projects financed, once possible as part of the post-issuance reporting.

The TEG recommends issuers to reference the relevant activities and criteria (including thresholds where relevant) of the EU Taxonomy for the Green Projects to ease the work of investors and other market participants.

Issuers are encouraged to provide 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, it is recommended that issuers also include information on whether the Green Projects are already near zero carbon or contribute to the transition.

To the extent feasible, the issuer is encouraged to indicate the potential share of a given type of project in ultimate allocations.

5.2.4 How are the proceeds of the EU Green Bond managed?

The issuer should use this section to confirm its intent and process to manage and report the allocation of an amount equivalent to the net proceeds of the bond to eligible activities. The issuer is required to outline a formal approach for managing allocated amounts.

5.2.5 How and what does the issuer need to report and what approach is adopted for verification?

The issuer should offer a description of and commitment to its reporting, including envisaged frequency and scope of content. Key features of EU GBS reporting are summarised in the reporting text of the EU GBS and guidance in section 6 below, of which central elements are as follows.

The issuer should set out a commitment to report on the **allocation** of the EU Green Bond proceeds, at least annually, until full allocation. This report shall include reference to alignment with the EU GBS and the EU Taxonomy.

The issuer's GBF should also set out intentions for **impact** reporting. This impact reporting is mandatory at least once during the lifetime of the bond (after full allocation), and in case of material changes. Issuers are required to provide information on the methodology and assumptions used for calculation of key impact metrics: (i) as described in the EU Taxonomy, where feasible; and (ii) any other additional impact metrics the issuer shall define. Such methodological information shall be provided either in the GBF or in the impact report or in both.

This part of the GBF should also establish the **verification** approach in accordance with the EU GBS. Verification may also be termed External Review, as used in the ICMA Green Bond Principles. The EU GBS requires verification of the GBF (pre-issuance) as well as allocations, at least after full allocation of proceeds, and that these should be published.

Verification of the GBF should be published before or at the time issuance. Verification of the Final Allocation Report shall be published along with the Final Allocation Report, or at the latest one year after it is published. In case the issuer decides to verify the allocation report annually, it can also be published annually.

In addition, the issuer may indicate the planned format of the allocation and impact reporting (e.g. individual allocations per project, or a portfolio reporting approach). For this, issuers can consult the reporting templates provided as part of the updated EU GBS (Annex 3). These contain a number of data points that are of interest to investors and other market participants, for example the ratio of financing to refinancing and impact metrics indicating change against a baseline.

Proposed GBF Template

The GBF Template included (Annex 2) can be consulted to find examples as to how, and with what information, the green bond framework can be presented. Issuers can use these templates to help shape their GBF, or to describe more comprehensively, green bond framework documentation.

6 How to implement comprehensive reporting

6.1 WHAT HAS TO BE REPORTED?

The EU GBS requires two different types of reporting, Allocation Reporting and Impact Reporting. Issuers can include Allocation Reporting and Impact Reporting in a combined report. Issuers are encouraged to use the Reporting Templates provided in Annex 3. These templates provide guidance on four topics.

i. **Basic Information** (Reporting Templates Part 1)

Issuers are asked to provide basic information, e.g. issuer's name, ISIN, reporting period, frequency of reporting and a reference to the GBF applied for all reports. The issuer should also provide the name of the external verifier - for the final Allocation Report this information is mandatory. Reporting has to include **a statement that the Green Bond is still in alignment with the EU GBS**.

ii. **Scope and Approach of Reporting** (Reporting Templates Part 2)

Issuers should clarify, whether the report covers allocation and/or impact reporting, project-by-project reporting or portfolio-based reporting. 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 on aggregated portfolio basis or in generic terms.

iii. **Allocation Reporting Templates** (Reporting Templates Part 3)

According to the EU GBS, issuers are required for each EU Green Bond to provide information on the total proceeds, the amount allocated as of the end of the reporting period, as well as a **breakdown by activities** (e.g. renewable energy (solar and wind), energy efficient buildings, public transport etc.),

and to reference the environmental objectives. Issuers shall provide information on the **geographical distribution of the Green Projects** with information by country level where feasible.

Issuers are further encouraged 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, it is recommended that issuers also include information whether the Green Projects are already near zero carbon or contribute to a transition. The issuer may select to report by larger regions to avoid disclosing commercially sensitive information. Investors may welcome more detailed information on the Green Projects.

iv. **Impact Reporting Templates** (Reporting Templates Part 4)

The Impact Reporting shall include information on the Green Projects, as well as the e**nvironmental objective(s)**. Issuers shall report on the **environmental impact** using metrics and thresholds as described in the GBF. If quantitative metrics and thresholds are developed under the technical screening criteria in the EU Taxonomy, the issuer has to report on these metrics and thresholds. Issuers may report on additional impact metrics as developed by market participants as described by the TEG EU GBS report[26]. Given different methodologies for assessing impacts (e.g. for estimating GHG emissions), with different estimates for future results (e.g. plan efficiency, emission conversion factors, baselines etc.), issuers shall be **transparent on methodologies and assumptions** used in their impact assessment and impact reporting.

6.2 HOW OFTEN IS REPORTING REQUIRED?

Allocation Reports shall be published at least annually until full allocation. In case of material changes in the allocation, a revised allocation report has to be published. The last allocation report after full allocation is the final allocation report (the “Final Allocation Report”).

The Final Allocation Report shall be verified.

An Impact Report shall be published at least once during the lifetime of the EU Green Bonds after full allocation of the bond proceeds, thereafter in case of material changes.

Verification of the Impact Report is recommended but not mandatory.

6.3 WHERE DOES REPORTING HAVE TO BE PUBLISHED?

Allocation Reporting and Impact Reporting shall be published in a manner that investors easily have access to the reports. The EU GBS, as proposed by the TEG, requires issuers to publish their Allocation Report and Impact Report on the issuer’s webpage or any other communication channel. Issuers are required to make the Final Allocation Report and Impact Report available until maturity of the EU Green Bonds. In case of material changes in the allocation after full allocation and publication

[26] Further Guidance can be found in footnote 122 to the Impact Reporting Template in Annex 3.

of a revised Final Allocation Report and, if necessary a revised Impact Report, these reports shall remain available until maturity.

Proposed Reporting Templates

The Reporting Templates included (Annex 3) can be consulted to find examples as to how, and with what information, the reporting can be presented. Issuers can use these templates to form their reporting or use them as a tool to summarise their more comprehensive EU Green Bond reporting.

7 How to implement verification

7.1 WHY IS VERIFICATION PART OF THE EU GBS?

The international and European green bond market has developed with the help of an ecosystem of organisations known as external reviewers providing advisory services on the environmental benefits of underlying projects. These firms also validate for investors other aspects of green bonds and primarily their alignment with market standards such as those provided by the GBP and CBI.

Research suggests that external reviews are essential to reduce informational asymmetries for market participants. For issuers to have an EU Green Bond voluntarily verified by an external verifier has become common practice and has typically been made available to investors before or at the time of issuance. Guidance on voluntary verification has been available thanks to ICMA's Guidelines for External Reviews, as well as the CBI's Assurance Framework, which allows for the certification of green bonds with its own standard. Currently the voluntary external review market is divided between four types of organisations:

- **Non-financial rating agencies and sustainability consultancies specialised in second-party opinions**;
- **Big-four audit firms** providing mostly post-issuance verification or "assurance" services;
- **Credit Rating Agencies**; and
- **Global technical inspection and certification bodies.**

The EU GBS builds on these foundations while formalising it and requiring additional processes. It institutes mandatory prior verification of the alignment of Breen Bond issues aiming for qualification as EU Green Bonds as well as ex post verification of Allocation Reporting. The objective is to promote the integrity, credibility, harmonisation and efficiency of the green bond market, as well as investor confidence.

7.2 WHO CAN PROVIDE VERIFICATION SERVICES UNDER THE EU GBS?

The TEG has recommended that oversight and regulatory supervision of external review providers eventually be conducted via a centralised system organised by ESMA. However, until the legislative process for a potential ESMA-led supervision can be fully operational, a market-based, voluntary interim registration process for verifiers (the Scheme) of EU Green Bonds may be set up for a transition period of up to three years.

The Scheme would allow issuers to obtain a standardised external verification of EU Green Bonds against the EU GBS by a registered verifier and would:

- Define minimum criteria for registration and guidance of verifiers;
- Develop and periodically update a formal registration process for verifiers;
- Set up and maintain a public registry of approved verifiers that meet the criteria for approval[27] and make it available on a dedicated website;
- Inform the European Commission and ESMA on the lessons-learned in the implementation of the Scheme.

External verifier firms that wish to provide verification of conformity of EU Green Bond issues or issuance programmes with the EU GBS would apply to the Scheme. They would need to confirm that they will meet the Scheme's guidance for verifiers that will include adherence to five fundamental ethical and professional principles (integrity, objectivity, professional competence and due care, confidentiality and professional behaviour), as well as provide evidence that they:

1. Have established an office in the EU or the EEA[28];
2. Have an organisational structure, working procedures, and other relevant systems for carrying out the verification services;
3. Employ appropriate staff with the necessary experience and qualifications for the scope of the external review being provided;
4. Have appropriate professional indemnity / professional liability insurance cover.

Verifiers would also need to demonstrate that they have competence and experience in:

- The characteristics and issuance processes of listed and unlisted debt market products;
- The management of confidential and market sensitive information;
- Assessing environmental projects for [all or certain] environmental objectives and for [all or certain] sectors covered by the EU Taxonomy and/or otherwise meet the requirement of the EU sustainable investment framework under the proposed regulation on the establishment of a framework to facilitate sustainable investment;
- Providing assurance services and/or conformity assessments in line with, among others, ISAE 3000 and/or DIS ISO 17029.

[27] Here "approved" is intended to mean either registered, authorised or supervised. Initially for a transition period of up to 3-years after launch of the EU GBS (in 2020), the verifier is proposed to apply to the Scheme of EU Green Bonds. Subsequently, the verifier may be registered, authorized or supervised by a European Supervisory Authority such as ESMA (as foreseen in the TEG EU GBS report, which used the term 'accreditation').

[28] The European Economic Area (EEA) unites the EU Member States and the three EEA EFTA States (Iceland, Liechtenstein, and Norway) into an Internal Market governed by the same basic rules, see: https://www.efta.int/eea. Registration of verifiers from outside the EEA is currently beyond the capacity of the Scheme but might be considered at a later stage.

7.3 WHICH ELEMENTS OF THE EU GBS HAVE TO BE VERIFIED?

The EU GBS as proposed by the TEG requires the mandatory verification by a registered verifier of a EU Green Bond issuance seeking alignment at 2 points in time and on specific elements of the standard:

1. Before or at the time of issuance, through an initial verification, the alignment (a) of their Green Projects with the EU Taxonomy within the parameters set out by the EU GBS and (b) of their GBF; and
2. After full allocation of proceeds, the actual allocation of these proceeds to green eligible projects as listed in the issuer's Allocation Reporting.

It is important to note that an initial verification 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), the verification of the Allocation Reporting can be incorporated in the initial verification.

The EU GBS also requires that verification(s) be made publicly available on the issuer's website and through any other accessible communication channel as appropriate.

8 Regional scope of the EU GBS

8.1 NON-EU ISSUERS

Non-EU issuers are welcome to use the EU GBS following the same criteria and requirements as EU issuers.

8.2 NON-EU PROJECTS

For projects located outside the EU, the issuer will need to meet in principle the same requirements as EU projects, which includes the alignment with the EU Taxonomy. Some elements of the EU Taxonomy criteria may require more detailed assessment and verification. The GBF and reporting requirements apply to non-EU assets as well and the location of such assets should be clearly spelled out in both documents.

As a general rule, where the criteria of the EU Taxonomy relate to EU legislation and alignment of non-EU projects cannot be based on local laws or permits, the issuer should provide additional transparency on how the alignment with the EU Taxonomy criteria is ensured.

Note that the recommended flexibility in terms of EU Taxonomy alignment as mentioned in section 3.1 includes the 'location' of the project as a factor for potentially deviating from the EU Taxonomy criteria, and as such this could apply to non-EU projects. However, where the TEG has identified that

TSC are internationally relevant[29], it should be understood that these must be applied internationally and there should be no flexibility to deviate from the EU Taxonomy criteria.

8.3 NON-EU INVESTORS

The EU GBS was deliberately designed as a tool for international financial markets, beyond the EU, and investors that are located outside the EU are encouraged to use the EU GBS to inform their investments strategies.

8.4 NON-EU VERIFIERS

Verifier from outside the EU are also welcome to use the EU GBS. However, verifiers must establish an office in the EU or the European Economic Area (EEA[30]). All approved verifiers are expected to have adequate understanding of the EU Taxonomy, relevant EU legislation and the professional skills to evaluate the alignment of the GBF, Green Projects and reporting with the EU Taxonomy and the EU GBS.

9 The EU GBS and regulatory disclosure requirements

Several sustainability-related disclosure requirements exist under EU legislation for companies (such as the NFRD and the EU Taxonomy Regulation) and investment funds and their manufacturers, as well as for financial advisers (such as the Regulation on sustainability-related disclosures on the financial service sector or the "EU Disclosure Regulation"[31] and the EU Taxonomy Regulation). The TEG understands that these various requirements with, in some instances, different terminologies can lead to confusion as to how they are related to green bond issuers. This section aims to provide some clarity as to what these different legal requirements are and how they may relate directly or indirectly to green bond issuers[32].

Please note that the requirements described above for issuers to publish impact reports and allocation reports stem from the proposed EU GBS. They are not related to legal requirements from any of the aforementioned regulations or directives.

[29] In the Technical Annex supplementing the report with the final recommendations on Taxonomy, the TEG has identified technical screening criteria that have global relevance. Where the TEG has considered technical screening criteria as being internationally relevant, the thresholds are described as follows: *It is the view of the TEG that this criterion is globally relevant. The performance level in the criterion is designed to be consistent with a net zero by 2050 goal. The performance level is not tied specifically to EU regulations, though cross-reference is made where appropriate to those regulations to assist EU users.*
[30] Including the EU Member States, Norway, Iceland and Lichtenstein.
[31] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN.
[32] The TEG Taxonomy report provides specific advice for corporates and financial market participants on how to comply with these disclosure requirements in the section "Taxonomy in practice".

9.1 NO DIRECT REQUIREMENTS UNDER THE DISCLOSURE & TAXONOMY REGULATIONS

The EU Disclosure Regulation lays down "harmonised rules for *financial market participants*" and financial advisers. This includes rules on transparency, among others, for the provision of sustainability-related information with respect to *financial products* promoting sustainability characteristics or financial products with sustainability objectives.

In the EU Disclosure Regulation, "financial market participants" are those that manufacture investment-based products such as investment funds where the investment fund itself is the "financial product" (see in Annex 5 definitions of selected terms in the EU Disclosure Regulation). It is important to note that, for the purposes of the EU Disclosure Regulation, a bond is not considered as a "financial product" and an issuer of fixed-income securities (i.e. bonds, including EU Green Bonds) is not considered a "financial market participant". **Thus, there is no direct impact from the EU Disclosure Regulation on issuers of EU Green Bonds.**

The EU Taxonomy Regulation uses the same definitions for "market participant" and "financial products" as the EU Disclosure Regulation. **There is therefore no direct obligation or impact on EU Green Bond issuers arising from the EU Taxonomy Regulation**. Separately, however, the EU Taxonomy Regulation creates reporting obligations for companies subject to the NFRD as described in section 9.2. below.

There can also be **an indirect impact**, as the EU Disclosure Regulation and the EU Taxonomy Regulation define new disclosure requirements for a broad range of asset owners, asset managers and manufacturers of investment products that may as a result generally be seeking information on EU Taxonomy-alignment from issuers in the bond market.

9.2 DISCLOSURE REQUIREMENTS FOR CORPORATES UNDER NFRD

Companies subject to the NFRD are required to disclose certain information on the way they operate and manage social and environmental challenges. EU rules on non-financial reporting only apply to large public-interest companies with more than 500 employees, covering approximately 6,000 large companies and groups across the EU, including listed companies, banks, insurance companies, and other companies designated by national authorities as public-interest entities.

Under the EU Taxonomy Regulation[33], the same companies that are subject to NFRD must include in their non-financial statement information on how and to what extend their activities are associated with environmentally sustainable economic activities[34]. **Issuers are only affected by this disclosure**

[33] Please note that under the EU Taxonomy Regulation, there is a requirement (Article 4, Political Agreement) on Member States and the EU to apply the taxonomy if they were to create requirements on "issuers in respect of corporate bonds that are made available as environmental sustainable". This simply means that if the EU were to develop an official green bond standard – which the TEG advices it to do – it has to apply the EU Taxonomy.

[34] For non-financial companies, the disclosure must include: (i) the proportion of turnover aligned with the Taxonomy; and (ii) CapEx and, if relevant, OpEx aligned with the Taxonomy. By 1 June, 2021, the European Commission will adopt a delegated

requirement if they are subject to NFRD and not due to the fact they issue EU Green Bonds. The TEG recommends, however, that especially when companies are subject to NFRD and they wish to issue an EU Green Bond, they should include their overall EU Taxonomy alignment in the GBF as well.

10 Miscellaneous questions

1. **When can an EU GBS aligned Green Bond be issued?**

The EU GBS as proposed by TEG is a voluntary standard and the adoption is therefore up to the issuers. In practice, three elements need to be in place before the EU GBS is formally in use:

i. Final adoption and enter into force of the EU Taxonomy Regulation[35];
ii. Decision from the EC on how to establish the EU GBS;
iii. Supervision of the verifiers is in place, or in the meanwhile a voluntary interim registration process for verifiers of EU Green Bonds has been established as described in section 7 above.

The EU GBS allows issuers seeking to align with the EU Taxonomy even before the Delegated Acts with final Technical Screening Criteria (TSC) are issued by the EC (by end of 2020 for climate change mitigation and adaptation and by end of 2021 for the other four environmental objectives). While there remains a possibility that the final TSC may deviate from the issuers' expectations in some places, the TEG considers that if the issuer has provided adequate transparency and justification for its view, and this is further supported by a registered/supervised verifier, the Green Bond could still be deemed to be EU GBS aligned. Any subsequent EU Green Bonds would have to meet the latest EU Taxonomy criteria.

2. **Can I issue a bond that is partly EU GBS aligned (for the climate-related part) and partly ICMA Green Bond Principles based?**

That is possible but it would not be deemed to be an EU Green Bond. While all EU GBS aligned bonds are GBP-aligned by definition, an EU Green Bond should meet all criteria of the EU GBS and be fully aligned with the EU Taxonomy for its use-of-proceeds.

3. **The verification incurs additional costs, is there any support for these?**

At the moment there is no public sector–supported scheme in the EU that would compensate for the verification expenses.

act specifying how these obligations should be applied in practice. The delegated act will consider the differences between non-financial and financial companies.

[35] Following the political agreement reach by the Co-legislators in December 2019, the final text is expected to be approved by the European Parliament in a Plenary vote in the first half of 2020. The publication in the JOCE is expected before the end of 2020.

4. **Can non-EU issuers use the EU GBS and are non-EU projects eligible?**

Issuers from outside the EU are welcome to use the EU GBS for their Green Bond issuance, with the same criteria as EU issuers. Non-EU matters, including treatment of non-EU projects, are addressed in section 8 above.

5. **The EU Taxonomy Technical Screening Criteria will be periodically reviewed, especially in the transition activities. Will EU Green Bonds with such use-of-proceeds maintain their status as EU Green Bond for the entire term to maturity regardless of later changes to the EU Taxonomy criteria?**

The TEG recommends that Green Bonds issued under earlier Technical Screening Criteria be grandfathered for their entire tenor, as there would otherwise be unacceptable and unpredictability for both issuers and investors.

6. **Can I use the EU GBS to finance an R&D project?**

Yes, provided that the underlying activity is eligible for use-of-proceeds in the EU Taxonomy. The EU Taxonomy includes a category of activities considered as "enablers" which includes, inter alia, R&D in areas relevant to the respective environmental objective. The TEG considers, however, that particular attention should be paid to the reporting parameters in such cases, as the outcome of R&D projects may be uncertain.

7. **Can I issue an EU Green Bond while my economic activity is not yet covered by the EU Taxonomy and where Technical Screening Criteria (TSC) have not yet been developed?**

The EU Taxonomy will be developed progressively over time, and there are cases where the TSC have not yet been developed for specific sectors or environmental objectives. In these cases, a registered or supervised verifier shall confirm that the Green Projects i) contribute substantially to at least one of six environmental objectives of the EU Taxonomy, while ii) not significantly harming any of the other objectives, and iii) comply with minimum safeguards.

8. **Can the EU GBS, and with it the EU Taxonomy, be used for the sustainability-linked (KPI-linked) bonds?**

The EU GBS cannot be applied, assuming the sustainability linked bond's use-of-proceeds is for 'general corporate purposes'. This is because the EU GBS requires a dedicated use-of-proceeds for purposes aligned with the EU Taxonomy.

However, the EU Taxonomy has relevance for certain corporates and banks, which will be required in the future to disclose the share of their EU Taxonomy–aligned business activities. Consequently, the TEG could imagine a use of the EU Taxonomy in sustainability-linked bonds, with KPIs for example linked to the improvement of the share of EU Taxonomy-aligned activities.

9. **Can I issue an EU Green Bond to finance investments that allow meeting the Technical Screening Criteria in the future?**

Investments that will align the activity with the EU Taxonomy criteria according to a predefined investment plan and timeline as specified in the relevant activity criteria are eligible use-of-proceeds for Green Projects.

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

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 approved[36] 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.

[36] Here "approved" is intended to mean either registered, authorised or supervised. Initially for a period of up to 3-years after launch of the EU GBS (in 2020), the Verifier is proposed to submit to the, voluntary interim registration process for verifiers (the Scheme) of EU Green Bonds, put in place with support from EU TEG Members. Subsequently, the Verifier may be registered, authorized or supervised by a European Supervisory Authority such as ESMA (as foreseen in the TEG EU GBS report).

4 CORE COMPONENTS OF THE EU GBS

4.1 Green Projects

Proceeds from EU Green Bonds, or an amount equal to such proceeds, shall be allocated only to finance or refinance Green Projects, subject to confirmation by an approved Verifier (see section 4.4), as (a) contributing substantially to at least one of the Environmental Objectives as defined in the EU Taxonomy Regulation ('the 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; (v) pollution prevention and control and (vi) protection and restoration of biodiversity and ecosystems, while (b) not significantly harming any of the other objectives and (c) complying with minimum safeguards. These safeguards entail alignment with the OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights, including the International Labour Organisation's ('ILO') declaration on Fundamental Rights and Principles at Work, the eight ILO core conventions and the International Bill of Human Rights. Where more stringent requirements exist in EU law, these will prevail.

When the EU Taxonomy will be in force and where Technical Screening Criteria (TSC) for substantial contributions and do no significant harm (DNSH) have been developed in the Taxonomy for specific environmental objectives and sectors, Green Projects shall align with these criteria. Flexibility for Taxonomy alignment may be required and is allowable firstly, for specific cases where the TSC may not be directly applicable as a result of the innovative nature, the complexity, and/or the location or other legitimate factors of the Green Project(s); secondly, for cases where the TSC have not yet been developed, such as for example for specific sectors or Environmental Objectives numbered (iii) - (vi). In these cases, an approved Verifier shall confirm that the Green Projects i) contribute substantially to at least one of six Environmental Objectives of the EU Taxonomy, while ii) not significantly harming any of the other Environmental Objectives, and iii) complying with minimum safeguards. Guidance for verification of alignment with qualitative criteria under the Taxonomy can be found in section 4.2. of the Usability Guide.

The issuer shall provide a description of such Green Projects (or suitable alternative information described below) in their Green Bond Framework (see section 4.2) and in the Green Bond legal documentation (for instance in the Prospectus or in the Final Terms). The information provided in the legal documentation may be summarised or may be limited to a reference to the Environmental Objectives and the GBF. In case 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 can include:

- Physical assets and financial assets such as loans. Green assets can be tangible or intangible, and they can include the share of working capital that can reasonably be attributed to their operation.
- Any capital expenditure and selected operating expenditures such as maintenance costs related to green assets that either increase the lifetime or the present or future value of the assets, and research and development costs. For the avoidance of doubt, operating costs such as purchasing costs and leasing costs would not normally be eligible except in specific

and/or exceptional cases as may be identified in the EU Taxonomy and future related guidance.

- For sovereigns and sub-sovereigns, relevant public investments, public expenditure and public subsidies.

Green assets shall qualify without a specific look-back period, provided that at the time of issuance they follow the eligibility criteria outlined above. Eligible green operating expenditures shall qualify for refinancing with a maximum three-year look-back period before the issuance year of the bond.

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 green financial products.

4.2 Green Bond Framework

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.

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 the respective maturity of the EU Green Bond.

4.3 Allocation and Impact Reporting

Two types of reporting are required under the EU GBS: Allocation Reporting and Impact Reporting.

Allocation 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. Verification is only required for the Final Allocation Report.

The Allocation Report shall include:

- A statement of alignment with the EU GBS
- A breakdown of allocated amounts to Green Projects at least on sector level, however more detailed reporting is encouraged
- The geographical distribution of Green Projects (recommended on country level)

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 whether the Green Projects are already near zero carbon or contribute to a transition.

For the avoidance of doubt, the Final Allocation Report for an EU Green Bond to be published upon full allocation shall comprise information on all amounts allocated to Green Projects at least on a sector level.

Impact Reporting: Issuers shall report on impact of Green Projects at least once during bond lifetime after full allocation of the bond proceeds to Green Projects and thereafter, in case of material changes in this allocation.

The Impact Report shall include:

- A description of the Green Projects,
- The Environmental Objective(s) pursued by the Green Projects
- A breakdown of Green Projects by the nature of what is being financed (assets, capital expenditures, operating expenditures, etc.), the share of financing (i.e., the amount of Green Projects financed after the bond issuance) and refinancing (i.e., the amount of Green Projects financed before the bond issuance),
- Information and, when possible metrics, about the projects' environmental impacts.
- If it has not been already detailed in the GBF, information on the methodology and assumptions used to evaluate the Green Projects impacts.

Verification of the Impact Reporting is not mandatory, however issuers are encouraged to have their Impact reporting reviewed by an independent third party.

Allocation Reporting and Impact Reporting can be either on a project-by-project level or on a portfolio level, where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available.

For the avoidance of doubt, the Allocation Report as well as the Impact Report may cover several bond issuances under the same Green Bond Framework. The issuer may also decide to publish separate Impact Reports for separate project categories. Allocation and Impact Reporting can be presented in a combined report or in separate reports. In case full allocation and or impact is already determined upon issuance of a bond, issuers may choose to publish one report comprising information on allocation and impact at issuance; for the avoidance of doubt, in case of material change of allocation, further reporting will be required.

Recommended draft reporting formats are further included in Annex 3, while leaving issuers the flexibility to adapt them as may be necessary.

Allocation Reporting and Impact Reporting shall be published on the issuer's website or any other communication channel. The Final Allocation Report and Impact Report published upon full allocation shall remain available until maturity of such EU Green Bonds unless replaced by further reports in case of material changes of allocation.

4.4 Verification

Issuers shall appoint an external Verifier to confirm:

- Before or at the time of issuance, through an initial Verification, the alignment of their GBF with the EU GBS, in accordance with section 4.1 (Green Projects) and 4.2 (Green Bond Framework); and
- After full allocation of proceeds, through a Verification, the allocation of the proceeds to green eligible projects in alignment with the Allocation Reporting as outlined in section 4.3 of the EU GBS.

Verification for alignment for qualitative criteria such as those included under substantial contributions, DNSH and minimum safeguards, could for instance consist of the verification of the existence of appropriate processes and due diligence systems designed to assess, mitigate and remedy risks and issues that may arise in relation to these qualitative criteria.

For the avoidance of doubt, an initial Verification 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) the verification of the Allocation Reporting can be incorporated in the initial Verification.

Verification(s), and any subsequent ones, shall be made publicly available on the issuer's website and through any other accessible communication channel as appropriate. The Verification of the GBF shall be made publicly available before or at the time of the issuance of its EU Green Bond(s). Verification of the Final Allocation Report should be made publicly available together with the publication of the Final Allocation Report, however, at the latest one year after the publication.

Verification provider(s) will be subject to registration/authorization[37] 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 Verification.

Verification providers shall also disclose their relevant credentials and expertise and the scope of the review conducted in the Verification Report.

Before the supervision of verifiers is in place, a market-based, voluntary interim registration process for verifiers (the Scheme) of EU Green Bonds may be established by the TEG members.

[37] See section 7.2. in this Usability Guide

Annex 2: EU Green Bond Framework Template

Date: Click or tap to enter a date.

Issuer name: Click or tap here to enter text.

Green Bond Framework name: Click or tap here to enter text.

External Verification provider name: Click or tap here to enter text.

Section 1: Strategy and rationale

Information in this Section relates to Annex 1 (Draft Model EU GBS), section Green Bond Framework, point 1. NB: the use-of-proceeds needs to be specified in the legal documentation

1.1. Please describe your Environmental Objectives as part of your overall strategy and the reasoning for issuing a green bond

Click or tap here to enter text.

1.2. Which environmental objectives do your Green Projects contribute to (as specified in the EU Taxonomy Regulation)? Select all those that apply.

☐ Climate Change Mitigation

☐ Climate Change Adaptation

☐ Sustainable use and protection of water and marine resources

☐ Transition to a circular economy

☐ Pollution prevention and control

☐ Protection and restoration of biodiversity and ecosystems

1.3. [Voluntary section] In the section below, you have the opportunity to describe whether and where (sources and/or documents) you have already reported on how your environmental objective(s) and/or strategy relate(s) to international commitments:
This may for example include publications in line with the EU Non-Financial Reporting Directive[38]. International commitments include, for example, the Paris Climate Agreement pathways or the UN Sustainable Development Goals, etc.

Click or tap here to enter text.

1.4. Please record any additional information that may be relevant to this section:

[38] Further information on the NFRD may be found here https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting/non-financial-reporting_en.

Click or tap here to enter text.

Section 2: Process for selection of Green Projects

Information in this Section relates to Annex 1 (Draft Model EU GBS, March 2020), section 4.2 Green Bond Framework, point 2. This section generally aligns with the "Process for project evaluation and selection" component of the GBP promoted by ICMA.

2.1. Please describe the governance process to ensure alignment of each Green Project with the EU Taxonomy: (1) substantial contribution to environmental objectives, (2) do-no significant harm to environmental objectives, (3) minimum safeguards and where developed (4) meeting the technical screening criteria (TSC).

For example, use of committees, internal/external environmental expertise, exclusion criteria, eligibility principles, metrics and thresholds, methodologies, standards or certifications. Example of TSC: Acquisition of Operation of Hybrid Vehicles is subject to an emissions ceiling of ["50g CO2 /km until 2025, zero emitting thereafter"].

Click or tap here to enter text.

2.3. Please record any additional information that may be relevant to this section:

Click or tap here to enter text.

Section 3: Green Projects

Information in this Section relates to Annex 1 (Draft Model EU GBS, March 2020), section 4.2. Green Bond Framework, *point 3 and 4. This section generally aligns with the "use-of-proceeds" component of the GBP promoted by ICMA. Please provide in this section the description of your Green Projects and how they align with the EU Taxonomy.*

3.1. Please describe the projects / project categories financed by the green bond proceeds, the relevant economic activity under the Taxonomy, and NACE code if available. Please refer to the [EU Taxonomy] for further details.

For example, for the construction of wind farms, there can be several economic activities that apply. In this case, for example, the relevant activity is the production of electricity from wind power (NACE code 35.1.1).

Click or tap here to enter text.

3.2. If available, please record the indicative list of Green Projects /activities financed by the green bond proceeds. If available, please supplement this information with the relative estimated proceeds allocation per Green Project category or asset class.

Click or tap here to enter text.

3.3. [Voluntary section] In the section below, you have the opportunity to describe whether the Green Projects substantially contributes directly or whether the Green Project enables others (to be expanded when other environmental objectives are covered)

Climate Change Mitigation

☐ low carbon ☐ transition ☐ enabling

Climate Change Adaptation

☐ adapting ☐ enabling

3.4 Please record any additional information that may be relevant to this section:
Click or tap here to enter text.

Section 4: Management of Use-of-Proceeds

**Information in this Section relates to Annex 1 (Draft Model EU GBS, March 2020), section* 4.2. Green Bond Framework, *point 5. This section generally aligns with the "Management of Proceeds" component of the GBP promoted by ICMA.*

[*Management of use-of-proceeds generally aligns with the approach to Management of Proceeds articulated in the Green Bond Principles. It thus entails ensuring allocations to Green Projects for an amount equivalent to the net proceeds and documenting such allocations. Furthermore, the approach should fulfil the reporting and verification requirements set out elsewhere in the EU GBS.]
Click or tap here to enter text.

Section 5: Reporting

Information in this Section relates to Annex 1 (Draft Model EU GBS, March 2020), section 4.2. Green Bond Framework, *point 6 and 7. This section generally aligns with the "Reporting" component of the GBP promoted by ICMA.*

5.1. Please record the indicative name of the report, its publication location, and your reporting frequency.
For example, "Green Bond Report to be published on our website". If you plan to report more frequently than on an annual basis, please state your reporting frequency.

Click or tap here to enter text.

5.2. Allocation reports will be published…

☐ Until full allocation of the proceeds of the relevant green bond

☐ Until maturity of the relevant green bond

5.3. When and at which frequency impact reports will be published…

Click or tap here to enter text.

5.4. Please explain the qualitative and quantitative impact metrics that will be used to demonstrate substantial contribution to Environmental Objectives per project category related to the criteria for the relevant taxonomy activity.

Click or tap here to enter text.

5.5. Please explain the qualitative and quantitative impact metrics that will be used to demonstrate no-significant-harm alignment per project category as defined in the relevant taxonomy activity (including any material changes). Click or tap here to enter text.

5.6. Please explain any quantitative or qualitative metrics you will use in your impact report that are supplemental to the metrics described in the EU Taxonomy and provide embedded links to relevant guidance documentation

For example, Annual Greenhouse gas emissions reduced/avoided in tonnes CO2e, Annual Renewable Energy generation in MWh/GWh.

Click or tap here to enter text.

5.7. If available, please provide an environmental impact estimation for the project(s) financed by the proceeds of your green bond(s).

Click or tap here to enter text.

5.8. External verification will be provided for

☐ each annual allocation report (voluntary)

☐ the final allocation report (required)

5.9. Please record any additional information that may be relevant to this section: Click or tap here to enter text.

Annex 3: Reporting Template

REPORTING FORM

1. Basic Information

Issuer name:

Related Green Bond ISIN(s):

Approved External Verification provider's name for the final allocation report:

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 alignment 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 Sectors[114]

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
XS12345689	*EUR 500 million*	*EUR 400 million*	*EUR 300 million*	*EUR 50 million*	*EUR 50 million*

3.2. Additional information

Regional distribution of Green Projects is recommended on country level. 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	IF AVAILABLE Impact metric[115] (absolute, annually[116])[117]	IF AVAILABLE Impact metric[2/118] (relative)[3]

[114] In addition to reporting on the allocation per sector, issuers are welcomed to provide more detail on a project level as well as on the allocation per taxonomy environmental objectives pursued. It is recommended that issuers provide information whether the projects directly contribute substantial to an environmental objective or whether they enable others. For projects supporting climate change mitigation additional information on whether the projects are already near zero carbon or transition is recommended.
[115] 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.
[116] Where appropriate: additional column for lifetime/lifetime impact of the project.
[117] Please report only the pro-rated share of impact that corresponds to the project cost financed by the issuer (share of financing).
[118] Please add column(s) for other impact metrics as relevant.
Note: Guidance on impact metrics is available from a broad range of sources including, for example, the Handbook Harmonized Framework for Impact Reporting published in June 2019 by the ICMA / the Green Bond Principles (see: https://www.icmagroup.org/green-social-and-sustainability-bonds/resource-centre/); the Position paper on Green Bond Impact reporting published by a group of Nordic Public Sector Issuers in January 2019 (see: https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Resource-Centre/NPSIPositionpaper2019final-120219.pdf) or the IRIS+ is the generally accepted system for measuring, managing, and optimizing impact, published by the Global Impact Investors Network (see: https://iris.thegiin.org/).

Wind Farm One	*Construction and installation of a windfarm with an annual generation capacity of x MW/GW*	*Renewable energy (wind energy) / Climate Change Mitigation*	*EUR 100 million*	*75%*	*EUR 75 million*	*2016 ongoing*	*100% financing*	*tangible asset (98% CapEx, 2% OpEx)*	*x t CO2e emitted (based on y gCo2e/kwh) x t CO2e avoided*

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	IF AVAILABL E Impact metric[119] (absolute, annually[120])[121]	IF AVAILABLE Impact metric[6/122] (relative)[7]
Solar energy portfolio	*Installation of solar rooftop panels for 4000 private households with a total annual generation capacity of x MW/GW*	*Renewable energy (solar photovoltaic) / Climate Change Mitigation*	*EUR 40 million*	*90%*	*EUR 36 million*	*2017 ongoing*	*100% financing*	*Tangible asset, (100% CapEx)*	*x t CO2e emitted (based on y gCo2e/kwh) x t CO2e avoided*	

[119] 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.
[120] Where appropriate: additional column for lifetime/lifetime impact of eligible activity.
[121] Please report only the pro-rated share of impact that corresponds to the portfolio cost financed by the issuer (share of financing).
[122] Please add column(s) for other impact metrics as relevant.

Note: Guidance on impact metrics is available from a broad range of sources including, for example, the Handbook Harmonized Framework for Impact Reporting published in June 2019 by the ICMA / the Green Bond Principles (see: https://www.icmagroup.org/green-social-and-sustainability-bonds/resource-centre/); the Position paper on Green Bond Impact reporting published by a group of Nordic Public Sector Issuers in January 2019 (see: https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Resource-Centre/NPSIPositionpaper2019final-120219.pdf) or the IRIS+ is the generally accepted system for measuring, managing, and optimizing impact, published by the Global Impact Investors Network (see: https://iris.thegiin.org/).

Annex 4: Connecting "Use-of-Proceeds" with the EU Taxonomy – Examples of how to navigate

USE-OF-PROCEEDS	MACRO-SECTOR	NACE LEVEL	NACE CODE	ACTIVITY	METRIC	THRESHOLD	EXCLUSION	DNSH
Green Buildings	F- Construction	2	F41, F43	Construction of new buildings	Primary Energy Demand (PED), defining the energy performance of a building	20% lower net PED compared to the relevant NZEB requirement	Use for fossil fuel activities	Impact on ecosystem during siting, on circular economy during lifespan (prioritise recycled materials etc).
Green Buildings	F- Construction	2	F41, F43	Renovation of existing buildings	National regulation for major renovations, or energy savings expressed in kWh/m2 p.a.	Either National standards or >30% reduction in Primary Energy Demand vs. baseline		Waste management (e.g. water contamination) circular economy (avoid high amount of non-recyclable construction waste)
Green Buildings	F- Construction	2	F41, F43	Individual Renovation Measures, Renewables Installation, Professional Support	Requirements in National Building regulations and codes	- Eligible types of renewable energy installations - Renovation measures to conform with Energy Performance Standards. other environmental regulations - Approved		Mainly to avoid hazardous building materials or waste (REACH regulation), prioritise recyclable materials and avoid excessive water consumption due to inefficient water appliances

USE-OF-PROCEEDS	MACRO-SECTOR	NACE LEVEL	NACE CODE	ACTIVITY	METRIC	THRESHOLD	EXCLUSION	DNSH
						professional, scientific and technical activities to support mitigation in building renovation		
Acquisition of Buildings	L- Real estate activities	2	L68	Acquisition of buildings	Primary Energy Demand during the operational phase of the building, expressed in kWh/m2 p.a.	Buildings built before 31 Dec 2020: Top 15% of the local stock, demonstrated through eg. EPC labels Buildings built after 31 Dec 2020: must meet the criteria established under "construction of new buildings"		Due diligence on environmental condition of building including attention to contamination and other risks, in case of renovation follow renovation criteria.
Acquisition / Operation of Hybrid Vehicles	H- Transport and Storage	N/A	N/A	Passenger cars and commercial vehicles	CO2e emissions per vehicle km	Max 50g CO2 /km until 2025, zero emitting thereafter	Infrastructure dedicated to transport of fossil fuels	Largely focus on existing standards: - Circular Economy - national legislation on hazardous waste and EC end of life directive - Pollution - Centred on existing regulations covering areas including pollution / Real Driving Emission performance, tyres,

USE-OF-PROCEEDS	MACRO-SECTOR	NACE LEVEL	NACE CODE	ACTIVITY	METRIC	THRESHOLD	EXCLUSION	DNSH
								noise and sound level.
Acquisition / Operation of Hybrid Vehicles	H- Transport and Storage	4	H49.4.1	Freight Transport Services by Road	CO_2 emissions per vehicle kilometre (gCO_2/km) or gCO_2/kWh	Zero direct emission heavy-duty vehicles emitting less than $1gCO_2/kWh$, or CO_2 emissions less than 50% of reference CO_2 emissions of all vehicles in same sub-group	Fleets dedicated to transport fossil fuels or fossil fuels blended with alternative fuels	Focus on existing EU and national regulations, notably re exhaust gases, particulates, maintenance and end of vehicle life: - Circular Economy - EU & national regulations on hazardous waste and EC end of life directive - Pollution - Centred on existing regulations covering areas including Real Driving Emission performance, tyres and sound level.

USE-OF-PROCEEDS	MACRO-SECTOR	NACE LEVEL	NACE CODE	ACTIVITY	METRIC	THRESHOLD	EXCLUSION	DNSH
Hydro Electricity	D		D.34.1.1	Production of Electricity from Hydropower	Life Cycle of Emissions	<100gCo2e/kWh declining to 0 by 2050		Construction period emissions and waste, impacts on biodiversity and species migration during operation

Annex 5: Definitions

EU Disclosure Regulation

Article 2 Definitions

(1) ‘**financial market participant’** means:

(a) an insurance undertaking which makes available an insurance- based investment product (IBIP);

(b) an investment firm which provides portfolio management;

(c) an institution for occupational retirement provision (IORP);

(d) a manufacturer of a pension product;

(e) an alternative investment fund manager (AIFM);

(f) a pan- European personal pension product (PEPP) provider;

(g) a manager of a qualifying venture capital fund registered in accordance with Article 14 of Regulation (EU) No 345/2013;

(h) a manager of a qualifying social entrepreneurship fund registered in accordance with Article 15 of Regulation (EU) No 346/2013;

(i) a management company of an undertaking for collective investment in transferable securities (UCITS management company); or

(j) a credit institution which provides portfolio management;

(12) ‘**financial product’** means:

(a) a portfolio managed in accordance with point (6) of this Article;

(b) an alternative investment fund (AIF);

(c) an IBIP;

(d) a pension product;

(e) a pension scheme;

(f) a UCITS; or

(g) a PEPP