Climate Bonds INITIATIVE

EU Green Bond Standard: Flexibility pocket 15%

" (9a) For certain economic activities for which there are no technical screening criteria under Regulation (EU) 2020/852 that have entered into force or for certain activities in the context of international support that contribute to the environmental objectives of the Taxonomy Regulation, a limited degree of flexibility should be provided. Such flexibility should be appropriately limited in size and scope in order to maintain a very high level of ambition for European Green Bonds. ***Still, the issuer should demonstrate that the activities contribute substantially to one or more of the environmental objectives, that they do not significantly harm any of the environmental objectives and that they are carried out in compliance with the minimum safeguards****. This demonstration should be included in the European green bond factsheet and thus validated by an external reviewer via a positive opinion in the pre-issuance review…*

Article 4a

1 Flexibility in the use of the proceeds of European green bonds

1. *By way of derogation from paragraph 1 of Article 4,* ***issuers may allocate up to 15% of the proceeds of a European green bond to economic activities that comply with the taxonomy requirements,*** *with the exception of the technical screening criteria****, where those proceeds are allocated to any of the following activities:***
   (a) *economic activities for which no technical screening criteria have entered into force by the date of issuance of the European green bond;*
   (b) *activities in the context of international support reported in accordance with internationally agreed guidelines, criteria and reporting cycles, including climate finance reported to the EU and United Nations Framework Convention on Climate Change (UNFCCC) as referred to in Article 19(3) of Regulation (EU) 2018/1999, and official development assistance (ODA) reported to the OECD Development Assistance Committee (DAC).*
2. *Where the issuer makes use of the provisions in paragraph 1,* ***it shall describe in the European green bond factsheet the activities concerned and the estimated percentage of the proceeds intended to finance such activities*** *as a total and on a per-activity basis.*
3. *Where the issuer allocates proceeds to the activities mentioned in point (a) of paragraph 1, it shall comply where* ***applicable with the generic criteria for Do No Significant Harm*** *set out in Appendices A, B, C, and D to Annex I to Delegated Regulation (EU) 2021/2139.*
4. *Where the issuer makes use of the provisions in paragraph 1 to allocate proceeds to the activities mentioned in point (b) of paragraph 1, those activities shall comply with the relevant technical screening criteria on a best effort basis."*

Point 1(b) relates to promoting economic development and the welfare of developing countries.

2 ICMA Guidance Handbook (January 2022)

2.1.4 Can an issuer issue a Green, Social, or a Sustainability Bond where not all the proceeds are directed towards Green and/or Social Projects?

No. GSS Bonds must have 100% of the proceeds dedicated towards Green and Social Projects. As projects may disburse over time, there may be temporarily unallocated bond proceeds, and issuers should explicitly state how unallocated proceeds will be/are temporarily invested. Where an eligible asset has matured, been prepaid or no longer qualifies under the issuer's eligibility criteria, the issuer should disclose the temporary use of the relevant proceeds pending allocation to eligible Projects.

3 Green Bond Database Methodology

3. Evaluating the Use of Proceeds threshold. Only bonds which are expected to allocate 100% of net proceeds to aligned green assets, projects or activities are included in the Climate Bonds GBD.

The Climate Bonds Green Bond Database methodology is currently being amended to add a flexibility pocket of 10% of the net proceeds, as follows:

Climate Bonds GBD Methodology requires at least 90% of net proceeds to be allocated to eligible green assets, projects and activities. This allows for a margin of flexibility, intended to cover only up to 10% of the total deal size where there is uncertainty of alignment with the methodology. This includes sectors where metrics are not readily available and/or need further assessment against a benchmark or proxy. In such cases, the methodology employs adapted approaches.

The methodology encapsulates this approach to infrastructure financing in the context of very low-intensity, less-developed economies, where infrastructure to allow access to basic amenities and services may be eligible. These instances will be assessed on a case-by-case basis, taking into account the relevant proportion of the use of proceeds, along with the phase of economic development, and the per-capita emissions of the jurisdiction where the proceeds are deployed.

Where there is insufficient disclosure to accurately assess the percentage, Climate Bonds shall employ proxy assessment methodologies. In instances of uncertainty, the percentage will be assumed to exceed 10%.

4 Suggestion for edits to CBS v4

3.1. Use of Proceeds

3.1.1. The Net Proceeds of the debt instrument must be allocated to the Nominated projects and assets.

3.1.2. All Nominated projects and assets must meet the documented objectives of the debt instrument as set out in the Issuer's Green Finance Framework.

3.1.3. ~~and~~ Issuers must ~~be in conformance~~allocate at least 95% of the net proceeds of the debt instrument to projects and assets that meet ~~with~~ the Sector Eligibility Criteria requirements of the Standard~~.~~

3.1.4. For any part of the net proceeds that will finance projects and assets that do not fully satisfy the Sector Eligibility Criteria requirements (up to 5%), the Issuer must provide detailed disclosures in the Green Finance Framework, and

3.1.5. Any Nominated Projects and Assets which do not fully satisfy the Sector Eligibility Criteria may be considered eligible if they meet all of the following conditions:

- **i.** They must relate to sectors for which Climate Bonds has not yet developed Sector Eligibility Criteria; and
- **ii.** They must fall under any of the Green Project categories listed in the ICMA Green Bond Principles or the ICMA Social Bond Principles; and
- **iii.** The Verification Report opinion must confirm their alignment with the ICMA Green/Social Bond principles
- **iv.** They must not relate to any of the following excluded activities:
  - The exploration, extraction or transportation of proven conventional or unconventional fossil fuel reserves.
  - Natural gas production.
  - Refining crude oil to produce derivative products.
  - The supply and/or use of fossil fuels for power generation and heat.
  - Conversion or fragmentation of high-carbon-stock land or unsustainable operations on high-carbon stock land leading to the loss of its status as high-carbon stock land.

5 Clean text:

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