



الهيئة المغربية لسوق الرساميل
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GREEN BONDS GUIDELINES

IN PARTNERSHIP WITH



Foreword

These guidelines were prepared by the Moroccan Capital Market Authority (AMMC), with the support of International Finance Corporation (IFC), in order to promote the emergence of the Green Bonds market within the Moroccan financial place. Indeed, the development of such market comes first with the clarification of the roles and requirements associated with this type of financial instruments.

Issuers wishing to issue *Green Bonds* will find in these guidelines an overview of the principles to comply with and the different steps to follow. Investors will also find useful information allowing them to better understand this segment of the debt market.

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Part 1

Presentation of *Green Bonds*

I. General information

1. Overview

Green Bonds are bond instruments where the proceeds are exclusively applied to finance or refinance in part or in full new and/or existing projects with positive environmental impacts.¹

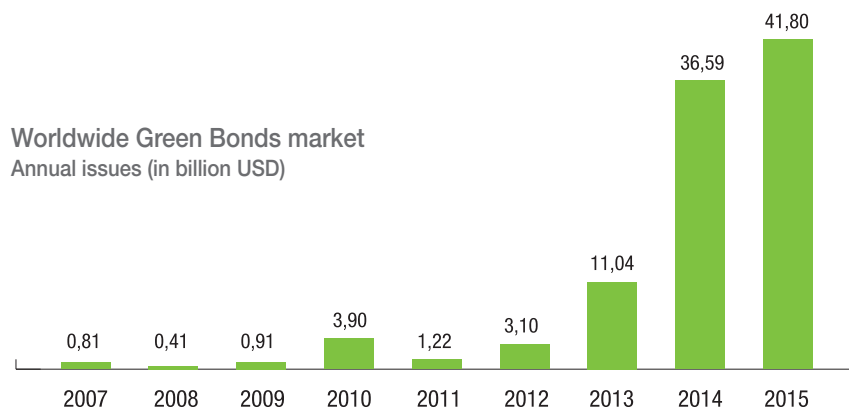
Green Bonds have no specific characteristics in terms of financial structuring. Their main difference with conventional bonds lies in the use of proceeds.

2. Genesis and dynamics

The *Green Bonds* market emerged in a context of collective awareness of the environmental issues as well as activism to reduce the environmental impacts of human activities.

Since the first issues by the World Bank and the European Investment Bank in 2007, and until 2012, the *Green Bonds* market remained restricted to supranational issuers. From 2013, where a 1 billion USD issue by IFC was entirely subscribed within one hour, private sector actors like *EDF* and *Bank of America* have entered this niche, thus marking a turning point in the market structure as evidenced by the strong growth in the issue amounts.

Indeed, from 1.22 billion USD issued in 2011, *Green bonds* accounted for nearly 37 billion USD worldwide in 2014 and more than 41 billion USD in 2015. In 2016, the issued amount has already exceeded 60 Billion dollars.



Sources : climate bond initiative and SFI

¹ Examples of eligible projects are given below in section "III. 1. Use of proceeds"

Thus, internationally, a wide range of issuers have used the Green bonds: Multilateral development banks, financial institutions, corporates, municipalities, utility companies...

The main reasons behind the emergence and development of this market are related to investors, issuers as well as government actions.

As for investors, we note at the same time:

- A tendency towards the «decarbonisation» of portfolios in a purely financial logic: avoiding the risks associated with fossil fuel investments such as process obsolescence, the increasing scarcity of finite natural resources, or the financial consequences of environmental scandals. The research of superior returns thanks to possible incentives, in particular tax incentives, may also be invoked;

and

- A tendency towards allocating funds to environmentally responsible investments in an ethical logic: some investors (*high net worth individuals, nonprofit organizations, foundations ...*) direct their investments, at least partially, according to well-defined non financial principles. Among these, some adopt an ecological approach.

As for issuers, we observe:

- A willingness to communicate to the market about their strategic involvement in sustainable development and their adaptation to the changes brought by the worldwide energy transition;
- A willingness to raise financing at the best possible terms for their green projects, by targeting investors that are the most sensitive to ecological issues (*more demanding of financial exposure on these issues*).

Finally, governments play a major role for the development of Green Bonds Market. Indeed, several efforts are being made to control climate change through the development of greener economic models and the mobilization of finance for green Investments.

For example, the parties to the United Nations Framework Convention on Climate Change meet annually at world conferences in which States analyze the progress of the Framework Convention and make decisions to achieve the objectives of climate change control.²

² See Marrakech COP22 link in the appendix below

II. Conceptual and normative frameworks

1. Conceptual framework

Green bonds are «normal» bonds, with a restriction on the use of proceeds which are exclusively applied to finance projects with a positive environmental impact.

The latter can take various forms, such as reducing carbon emissions, improving the efficiency of energy and water consumption, improving waste management, the replacement of fossil fuels by renewable energies, the improvement of land management, ...

The restriction on the use of proceeds is a voluntary contractual clause (*of the bond indenture*) between the issuer and the investor. Indeed, the investor wants to allocate his investments to «green» projects. He therefore requires that the funds lent to the issuer be invested according to this objective.

In case the funds will be used to finance a well-defined and known project, it is easy for the investor to determine in advance whether the proposed investment meets his expectations or not. In other cases, where the destination of the funds is not known in advance (*financing a portfolio of projects, financing a credit institution willing to provide financing for green projects, ...*), the investor's decision requires an adequate information.

In all cases, it remains essential to ensure:

- The credibility of the issue and of the issuer's claims through an external review;
- Relevant, sufficiently detailed and externally reviewed information on the issuer's commitments, in particular on the use of proceeds, prior to the issuance;
- Adequate and credible monitoring based on pre-defined methodologies, to make sure that the proceeds are used in accordance with the agreed principles.

Thus, with the strong growth of Green Bonds market and in order to ensure its secure and controlled development, it appeared necessary to set a common framework of ground rules for this segment of the market.

2. Normative framework

Green Bonds are not governed by a specific legal regime. They obey the general principles governing the relationship between the issuer and the investor (*obligations to abide by agreed contractual clauses, obligations of ongoing and periodic information ...*).

However, given the strong market growth, actors have elaborated principles and best practices with regards to the relationship between Green Bonds investors and issuers.



There are several initiatives aiming to standardize Green Bonds, among which the most widespread are:

- *Green Bonds Principles*³: drafted jointly in 2014 by four investment banks, this initiative brings together today a coalition of issuers, investors and environmental NGOs (82 members and 41 observers at the end of March 2015). It aims to promote a consistent framework of requirements for the process of eligible projects evaluation and selection, as well as for reporting and external assurance.
- *Climate Bonds Initiative*⁴: this organization has the ambition to mobilize debt capital markets for climate change solutions. As such, it operates on three workstreams: providing information and reporting on the Green Bond market, developing sector-specific guidelines for Green Bond certification, and providing policy models and advice.

In addition, extra-financial rating agencies have developed specific analysis frameworks for these instruments.

Finally, investors are also organizing to participate in the structuring of the market. For example, in 2015 the French Association of Financial Management has drawn up professional guidelines presenting the minimum criteria required to justify the «Green Bond» designation. Also, 27 investors representing 11.2 trillion USD in assets, co-signed the «Paris Green Bonds Statement» on the fringes of the COP21. In this statement, they undertake to work to grow a large and robust market that makes a real contribution to addressing climate change.

III. Principles and best Practices

The principles developed in this section are based on the recommendations of the *Green Bonds Principles*.

1. Use of proceeds

The use of proceeds is the cornerstone of a Green Bond. Proceeds must be allocated to projects with a positive environmental impact.

Eligible projects can be of several types and fall into several sectors, among which:

- Production of renewable energies;
- Improving energy efficiency (including efficient buildings);
- Sustainable waste treatment;
- Sustainable land use (sustainable forestry and agriculture);
- Preservation of biodiversity; ...

³ See internet link in the appendix below

⁴ See internet link in the appendix below



It should be noted that some initiatives, such as the Climate Bond Initiative or the professional guide edited by the French Association of Financial Management, offer more detailed lists than those mentioned above, but the projects listed generally fall within broad categories similar to those above.

Eligible projects can be either future projects where funding is raised for their realization, or existing projects for which the issuer is seeking refinancing.

In the first case (financing), the proceeds of the issue must be used exclusively to finance the projects or categories of projects predefined before the issuance.

In the second case (refinancing), the proceeds of the issue are matched against a portfolio of existing projects. The issuer has a pool of eligible assets and replaces the resources it has already committed to these projects by the Green Bond proceed. Accordingly, the use of the Green Bond proceeds is not restricted, but the issuer must permanently guarantee the existence of a portfolio of eligible projects corresponding at least to the outstanding amount of the issue.

2. Evaluation and selection of eligible projects

In some Green Bonds, the proceeds are not intended to directly finance a project in particular. The objective of the issuer is to raise funds for the purpose of financing a portfolio of green investments that are not known beforehand.

In these cases, it is essential for the issuer of a Green Bond to have a well defined, followed and monitored process for the selection of the projects to be financed by the raised funds.

In the case of existing projects for which the issuer seeks refinancing, a clear monitoring process must be put in place to ensure the existence of a portfolio of projects covering the outstanding amount of the issue throughout its lifetime. This process must also provide measures to address cases where assets are taken out of the portfolio backing the Green Bond.

3. Management of proceeds

In order to ensure their use in accordance with the agreed principles at the time of issuance, the proceeds of a Green Bond must be confined in specific accounts.

Also, the issuer must have a formal and rigorous process to track the proceeds throughout the life of the Green Bonds. This tracking relates to the traceability of the use of invested proceeds as well as the remaining not invested balance. Funds not yet invested in eligible projects may be temporarily invested in financial instruments satisfying principles defined by the issuer and disclosed to the investors.

However, it is worth noting that the confinement of the proceeds is not applicable in the case of refinancing, as their use is not restrained.

4. External reviews

The use of external reviews is necessary to reinforce the credibility of the “Green Bond» label. These reviews can be of four levels:

- Consultant advice: a recognized expert advises the issuer and assists him in preparing or reviewing its Green Bond process (nature of projects, impacts, use of proceeds, etc.). This service helps the issuer propose a coherent Green Bond;
- Verification: the issuer may resort to a recognized independent third party (eg. : external auditors) to verify some aspects of the Green Bond. For example, the verification may be carried on the compliance with the selection criteria for funded projects, the compliance with the procedures agreed upon for the management of proceeds, the balances of the accounts dedicated to the proceeds, the real environmental impacts of the projects ...;
- Certification: at the opposite of the verification which checks the compliance with the issuer internal standards, the certification ensures the compliance with a recognized external benchmark. Hence, an issuer may have its Green Bond certified compliant to an external standard such as the Climate Bonds Initiative, for example.
- Rating: The issuer may resort to a recognized non-financial rating agency to rate the Green Bond issue (or a green issuance program). The rating is based on the rating agency's analysis framework.

In general, the external review may cover all or part of the issuance process of the Green Bonds.

5. Reporting and communication

The issuer of Green Bonds must guarantee a certain level of information which must be available and disclosed to investors at least on an annual basis.

This information relates mainly to the nature of the financed or refinanced projects which should be described with sufficient clarity and detail, as well as the environmental impacts of these projects. The issuer must provide this information at the time of issuance (*project to be financed / to be refinanced and expected impacts, external reviews conducted*) and throughout the securities lifetime (*financed projects and effective impacts, external reviews conducted*).

Part 2

Carrying out a Green Bond issuance

I. Prior to the issue

The environmental commitments of an issuer in the framework of a Green Bond must be consistent with its social and environmental responsibility profile. Thus, an issuer involved in violations or controversies tarnishing its social and environmental responsibility should not propose Green Bonds.

1. Identification of projects

The projects to be financed must be clearly defined by the issuer and their impacts clearly described and quantified. They may be individually identified projects or unidentified projects satisfying well-defined criteria.

In the latter case, the issuer must establish a policy describing the criteria with which the investments to be carried out must comply, as well as a detailed procedure for the evaluation, the selection and financing of investments.

In the case where all or part of the proceeds of the issue are used for refinancing eligible projects, the issuer must specify the share of the issue intended for such refinancing and clarify which projects or project portfolios are refinanced.

In all cases, a procedure for monitoring investments and reporting their environmental performance must be established.

There are several recognized standards that are useful for projects identification and for drafting the aforementioned documentation, among which there are the *Green Bond Principles* or the *Climate bonds initiative*.⁵

2. Independent Review

The verification of the green character of eligible projects by a qualified third party is essential. Indeed :

- It comforts investors about the veracity of the ecological impacts of projects, thereby contributing to the success of the issuance;
- It saves the reputation of the issuer against potential allegations of greenwashing⁶, particularly in case of failure to achieve the expected impacts;

⁵ See the internet link in appendix

⁶ Disinformation disseminated by an organization so as to present an environmentally responsible public image (Oxford dictionary)

- The independent review provider, given its expertise in the field, can direct the issuer for a better definition of projects and help in finalizing the drafting of the documentation mentioned above;

The third party reviews the projects (or categories of projects) and the established procedures for monitoring and reporting. It should be noted that the adoption of recognized standards during the preparation of the Green Bond proposal is beneficial. Indeed, it reduces the verification costs and time, and improves the credibility of the issue. The third party may also examine, as part of its due diligence, the social and environmental responsibility profile of the issuer and integrate it in its assessment of the issue.

II. The AMMC authorization Process

1. Submitting a file

Submitting a Green bond file follows the same rules as for other bond files. However, specific elements must be submitted in addition to the standard file. These include:

- Bond indenture detailing all the obligations and commitments of the issuer;
- Detailed description (technical, legal, economic and financial aspects) of projects if they are individually identified, including their expected ecological impacts;
- Precise criteria for selecting eligible projects (categories, expected impacts, profitability...);
- Procedure for the evaluation of investments to be carried out, detailing the process (roles, steps, reporting, archiving, etc.) adopted during the examination of various investment opportunities that would be available to the issuer;
- Procedure for the selection of investments, presenting the roles and steps for the validation of the Investments in order to finance them;
- Proof of opening a specific account for the collection of proceeds, as well as the instruction given to the centralizing agent of the issue to transfer the proceeds in the said account (except in the case of refinancing);
- Procedure for the management and monitoring of proceeds. It details the authorizations and restrictions with regards to funds movement, periodic checks and reconciliations to be carried out on the dedicated account, as well as the planned reporting in respect of the funds used and the remaining balances (except in the case of refinancing);
- Ongoing communication policy for the issue. It details the information that the issuer commits to publish throughout the life of the issue (information nature, frequency and publication channels, places of availability, responsible persons, verifiers, recipients, etc.);
- Procedure detailing the measures to be deployed in certain cases of non compliance with the issuer commitments. (eg. failure to make the expected investments, exit of an asset from the issuer portfolio, etc.);

- Reports of independent third parties who have reviewed the proposed issue, including their independence statement along with a presentation of the said third parties (brochures, CVs, references, accreditations, etc.);

It should be noted that, depending on the characteristics of the issue and / or the issuer, other documents or information may be requested by the AMMC.

2. File examination

For a given Green Bond, the AMMC does not ensure the Greenness of the issue. On this aspect, the Authority relies on the second opinion issued by the third party verifier or the external certification provided. However, the AMMC ensures that sufficient information on the process set up by the issuer is disclosed to potential investors.

Thus, the emission of Green bonds is subject to the same usual AMMC due diligence, with a particular attention paid to the following aspects:

- The intended use of proceeds should be defined as clearly as possible, including the provided for temporary investments while awaiting projects financing;
- The investments selection criteria, as well as their expected ecological impacts, must be clear and quantified. A generic or ambiguous formulation is not acceptable;
- In the case of an issue intended to finance new projects, the proceeds must be confined in a specific account for which the responsibility is clear. The funds shall be used only in accordance with their agreed destination or agreed procedure for handling exceptional cases of non-compliance with the issuer commitments (eg. failure to make expected investments, exit of an asset from the issuer portfolio, etc.). The proceeds must be subject to a formal and rigorous follow-up process, ensuring full traceability of used funds and unused balance;
- In the case of an issue intended to refinance a portfolio of projects, the issuer must permanently make sure to maintain the said portfolio to a size at least equal to the outstanding amount of the issue. The measures put in place to ensure compliance with this obligation must be clear and subject to periodic reviews by an independent third party such as external auditors;
- The terms of information communication to investors must be well defined and ensure clear, relevant and up-to-date information;
- The conclusions of the independent external review provider(s) must be disclosed to Investors.

All the principles mentioned above must be reflected in the issue prospectus as well as all the issue documentation (bond indenture, procedures listed above ...). The AMMC may formulate comments and remarks on these documents in order to ensure adequate protection of investors and the market.

III. Throughout the life of securities

The issuer of a Green Bond is subject to all the requirements applicable to a conventional bond issuer. Accordingly, throughout all the securities maturity, the issuer must comply with the periodic and ongoing information obligations. In addition, some specific requirements must be observed with regards to the Green bond in order to provide adequate information to the market.

1. Periodic information

In general, the issuer must comply with the information commitments it has made at the time of issuance (Detailed in the prospectus and indenture). At least, the following principles should be complied with:

- The issuer must regularly communicate on the use of proceeds: projects or types of projects financed, envelopes allocated to these projects, funding schedules, unused balances ...;
- The environmental impacts of financed or refinanced projects should be regularly communicated to the market. Impacts must be communicated in measurable and understandable terms. The issuer must use the most relevant and widely accepted indicators. Also, the information provided must be comparable in time (maintaining the same indicators in all publications). In case of a change of indicators to be communicated, the issuer must motivate the change and ensure a transition period during which abandoned indicators must be published. Impacts must be communicated on a project and / or aggregate basis, as the case may be;
- The effective environmental impacts of the financed or refinanced projects must be compared to the impacts expected during their evaluation phase and to the eligibility criteria set out in the initial documentation;
- Where applicable, detailed documentation on the impacts of projects should be made available to investors according to clear terms (on the issuer's website, at its headquarters, at the request of investors, etc.);
- The environmental impacts published by the issuer must be reviewed by qualified third parties;
- The external auditors must attest on the compliance with the procedures described in the initial documentation (evaluation and selection of projects, monitoring of projects, impact measurement ...). Also, the account dedicated to the issue proceeds must be subject to a specific review to ensure that it is managed according to the original agreements and to certify its balance;
- The Green Bond specific information (projects, impacts ...), as defined before issuance, must be published at least annually by the issuer. The AMMC recommends adoption of the semi-annual and annual financial publications schedule.

2. Ongoing information

Like other issuers, a Green Bond issuer must make public any important information (as defined by legal and regulatory provisions).

In a Green Bond framework, the following events can be qualified as important information that must be disclosed to the public without delay (indicative list):

- Time lag in the use of proceeds in comparison to the schedule presented in the documentation of the issue;
- Significant negative variance between the expected impacts and the actual impacts of the financed projects (on an individual or aggregate basis);
- Any change of the reviewers or experts appointed in connection with the issue;
- Any event likely to have an impact on the environmental performance of the financed projects, or on the feasibility of the projects to be financed;
- Any change in the commitments made by the issuer at the time of issuance. Note that such changes can be made only after obtaining the explicit agreement of Bondholders (either through their general meeting or through their representative, depending on the initial agreements).

IV. Frequently asked questions

1. *Who can issue Green Bonds?*

Any company or organism can issue Green Bonds, as long as it complies with legal and regulatory conditions for the issuance of classical bonds (legal status, duration of existence, capital requirements...). However, it is primordial to comply with the additional principles presented in the present guidelines.

2. *Which forms of bonds can be issued under the label Green Bond?*

The label "Green Bond" can be applied to any type of bonds provided that the projects to finance or refinance are eligible.

In addition, according to the recourse that the investor has, we can distinguish the following types of Green bonds:

- Green use of proceeds bonds : where a private or public entity issue bonds with a general recourse on the issuer;
- Green use of proceeds revenue bonds : where some revenue streams of the issuer are pledged for the payment of the due amounts with regards to the Green Bond issue;
- Green project bonds : where proceeds are specifically applied to one or more projects, with an investor recourse on the assets of the said project(s) only;
- Green securitized bond: where the investor's recourse is on a set of projects grouped together, and generating cash flows intended to pay the bondholders, like in the case of a securitization operation.

3. *Who is targeted by a Green Bond issue?*

A Green Bond targets any investor willing to direct a part of his savings towards fixed income products designed to finance ecological activities. However, it should be noted that, in general, qualified investors are the main investors in bond issues.

4. *Who are the actors in a Green Bond issue?*

Besides the actors in a conventional bond offering, namely the issuer, its financial and legal advisers, its auditors, underwriters and other financial intermediaries, a Green Bond issue involves third parties who will give reasonable assurance to investors on the green character of the issue (before the issuance) and on the compliance with the commitment made at the time of issuance (after issuance and throughout the maturity of the bonds).

5. *Does the AMMC ensure the green character of an issue labeled as a Green Bond?*

The regulator does not take a position on the greenness of the bond. It verifies that the conditions of the offering have been reviewed by independent third parties who deliver an opinion on the green character of the bond. The AMMC ensures that all the commitments of the issuer as well as relevant information for the investment decision making are disclosed to the public.

6. Can an issuer invoke the “greenness” of its activities to issue a Green Bond?

The sole presumed greenness of an issuer’s activities is not sufficient to label a bond issue as a Green Bond. Indeed, the green character of an issue depends on the use of the issue proceeds, independently from other activities of the issuer. The proceeds must exclusively be applied to green investments having positive environmental impacts.

7. Must the proceeds of a Green Bond be necessarily used to finance new projects?

A Green Bond issue can be designed either to finance a pipeline of future projects or to refinance a portfolio of existing projects in which the issuer is already engaged. In the second case, the issuer backs the issue with the said projects and commits to keep the portfolio at a size at least equal to outstanding amount of the issue, without commitment on the confinement and use of proceeds. The portfolio of projects subject to the refinancing must be clearly identified and rigorously followed-up.

8. Can an outstanding conventional bond be re-labelled as a Green Bond?

An outstanding conventional bond can be labeled as a Green Bond during its maturity if it satisfies the labeling criteria (eligible assets, drafting of applicable procedures, external reviews...). The issuer should however inform the AMMC beforehand, and disclose the information to the market.

9. What are the necessary authorizations to issue a Green Bond?

Issuing a Green Bond does not require specific authorizations in addition to those required for a conventional issue (Board of directors, Shareholders assembly...).

10. What happens if a Green Bond issuer does not fulfill its commitments?

Non compliance with one or more commitments undertaken under a Green Bond issue subjects the issuer to the legal and regulatory sanctions applicable. In addition, bondholders could sue the issuer in court and ask for compensation or even nullity of the transaction. At Last, the AMMC can order the revision of the issue terms.

11. What happens if one or more assets go out of the issuer’s portfolio?

The Green Bond issuance documentation should address this question by precising what the issuer intends to do if such event happens during the maturity of the bond. Many alternatives can be considered like the repayment to bondholders of the amount corresponding to the value of assets taken out or the commitment to reinvest in new projects in such a way to permanently maintain the size of the portfolio at least to the outstanding amount of the bond.

Appendix : Useful links

- COP22 Marrakech – 22nd Conference of the Parties to the United Nations Framework Convention on Climate Change
www.cop22.ma/
- Climate Bonds Initiative
www.climatebonds.net/
- Green bonds Principles :
www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GBP-2016-Final-16-June-2016.pdf
- International Finance Corporation :
www.ifc.org/

