

Guidelines for issuance of green, social and sustainable securities in Argentina

CNV Comisión Nacional
de Valores

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GUIDELINES FOR ISSUANCE OF GREEN, SOCIAL AND SUSTAINABLE SECURITIES IN ARGENTINA

BACKGROUND

The Argentine Securities and Exchange Commission (CNV) is the national body in charge of the promotion, supervision and control of capital markets. It is a self-sufficient body under the control of the Secretariat of Finance of the Argentine Ministry of Treasury, created in 1968 by Public Offerings Law No. 17.811. Currently, the regulatory framework that governs its operations is related to the Capital Markets Law No. 26.831 passed in 2012 and recently amended by the Productive Financing Law No. 27.440.

The CNV's core mission is to protect investors and promote the development of a transparent, inclusive and sustainable capital market that contributes to the country's economic and social progress¹.

Within this context, one of the CNV's key initiatives is to promote the development of financial instruments that have a positive social, environmental, and/or governmental impact through capital markets and that more attractive instruments for investors are created simultaneously. This enables the funding of companies and projects that contribute to the sustainable development of the national economy.

For this purpose, the CNV has created the Guidelines for issuance of green, social and sustainable securities in Argentina (the Guidelines). These standards were developed based on international best practices and in consultation with regional industry parties.

The purpose of the Guidelines is to provide the market with a best practices and standards guide for the issuance of green, social and/or sustainable securities (GSS Securities) aimed to spread international standards and rules to assess eligible assets. Each of the GSS Securities labels is defined according to the benefits obtained by the projects or activities to be funded. Thus, **"green" securities** are focused on projects or activities with environmental benefits, **"social" securities** are focused on projects or activities with social benefits, and **"sustainable" securities** are a combination of both.

GSS Securities are structured similarly to any traditional marketable security. The difference lies in the use that will be made of the resulting financing, which

¹ <http://www.cnv.gov.ar/sitioWeb/Institucional>

must be exclusively allocated to activities or projects considered social, green or sustainable, which must be detailed in the relevant issuance prospectus.

All issuers who want to issue GSS Securities must take into account what is set forth herein, as well as the markets that intend to create labels, segments or different panels for these products. This will give certainty and transparency to investors in relation to the rules with which these issuances are carried out. In this regard, the Guidelines provides the market with internationally well-known practices concerning sustainable financing.

2. CAPITAL MARKETS AND SUSTAINABILITY

2.1 INTRODUCTION

Qualified investors may be a significant source of capital to fund the development of sustainable infrastructure in Argentina. During the last 5 years, there has been a global increase in the demand of investment opportunities for adjustment and mitigation of the climate change, the creation of a positive social impact and sustainable development, mainly by institutional investors coming from member states. This can be observed in the increase of capital involved in initiatives such as the Principles for Responsible Investment², Investor's Global Statement on Climate Change³ and the appearance of investors interested in investing on financial instruments with green and social purposes.

The growing demand of sustainable assets has led to the development of financial instruments markets with green, social or sustainable purposes aimed at providing qualified investors with long term maturity dates, according to their liabilities and with steady and predictable profits. All assets labelled as green are currently the most developed segment worldwide, with great recognition from investors and a higher consent degree in relation to their taxonomy.

In addition, the green securities market has experienced an exponential growth internationally, reaching issuance for an amount equal to 42 billion dollars in 2015, 87 billion dollars in 2016 and 155 billion dollars in 2017, with an also increasing diversity regarding the issuer's, geographical and projects' basis.⁴

The appearance of green securities has been acclaimed by the United Nations as "one of the most significant developments in the financing of low-carbon,

² <https://www.unpri.org/>

³ <http://investorsonclimatechange.org/statement/>

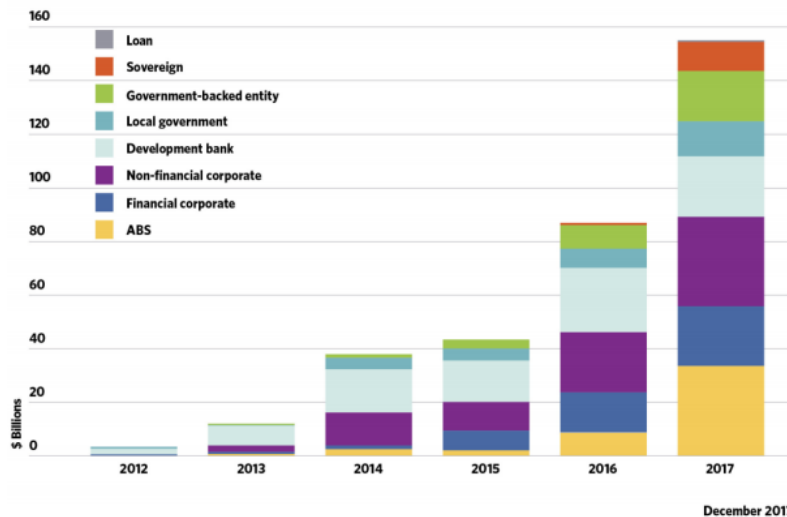
⁴ <https://www.climatebonds.net/resources/reports/green-bond-highlights-2017>

climate-resilient investment opportunities”⁵. Similarly, the communication sent in September 2016 by the leaders of the G20 Summit stated that to support the environmentally sustainable growth globally, “it is necessary to scale up green financing,” promoting cross-border investments to promote the development of local green securities markets.⁶

Furthermore, and among different initiatives for the development of sustainable financing, it is worth mentioning the creation of the Task Force on Climate-related Financial Disclosures, whose purpose is to give climate-related volunteer and consistent financial statements that will be useful for investors, lenders and insurers to understand material risks. This group is led by Michael Bloomberg and supported by 513 international organizations and members of the G20 Summit.

GROWTH OF THE GREEN BONDS MARKET (2012-2017)

The labelled green bond market is growing rapidly



2017 in numbers

USD155.5bn – total green bond issuance
78% growth on 2016ⁱⁱⁱ
1500+ issues
37 countries of issuance on all **6** continents
239 different issuers
146 new issuers
USD10.7bn – largest single green bond
3 sovereign green bonds

Source: Climate Bonds Initiative

The CNV considers that GSS Securities are an effective form to move private capital to Argentine priority sectors, thus promoting the development of resilient, low-carbon infrastructure that allows for an equitable and sustainable development.

⁵<https://renewablesnow.com/news/un-report-confirms-key-role-of-green-bonds-in-climate-investment-497005/>

⁶<http://unepinquiry.org/wp-content/uploads/2017/01/2016-09-04-g20-communique-en.pdf>

GSS Securities promote higher transparency since they have to prove that the resulting financing was indeed used to support projects with environmental and/or social benefits.

3. INTERNATIONAL STANDARDS CONSIDERED BY THE CNV

At an international level, there are well-known standards that govern the issuance of financial instruments with green, social or sustainable purposes⁷ that must be taken into account to label this type of assets.

- **Green Bond Principles (GBP):** were created in 2014 by the International Capital Market Association (ICMA). These principles constitute a procedure guide for the issuance of green bonds. The main objective of these principles is to promote transparency and the disclosure of information, thus promoting integrity in the development of the green bonds market. The four principles or main elements on which the GBP are based are: the use of proceeds, process for projects selection, management of proceeds and reporting. In addition, they recommend the use of external reviews to confirm the alignment with the four elements. For more information on the four principles of the GBP, please see ANNEX A attached hereto.

In 2017, ICMA also developed the Social Bond Principles (SBP) and the Sustainability Bond Guidelines (SBG). SBP adopt the same pillars as GBP regarding transparency and add new eligible categories for financing. On the other hand, SBG refer to their eligible assets based on GBP and SBP principles.

- **International Climate Bonds Standard (CBS):** managed by the Climate Bonds Initiative (CBI), it refers to the criteria and standards created to be used as tools for governments and investors whose objective is to mitigate the adverse effects of climate change. These standards set forth the pre-issuance and post-issuance requirements for instruments and also include a list of project categories. It is worth noting that CBSs are aligned with GBP, therefore, they promote reliance and transparency among investors⁸.

The CNV recommends the adoption of relevant international practices to obtain a higher degree of harmonization of markets globally.

⁷ For more information, please see Annex A.

⁸ For more information on Climate Bonds Standards visit: <https://www.climatebonds.net/>

3.1 GREEN, SOCIAL AND SUSTAINABLE SECURITIES

The CNV adopts the definitions established by ICMA's Executive Board, the Green Bonds Principles and the Social Bonds Principles:

Green Bonds: defined by GBP as “any type of bond where resources will be exclusively allocated to finance or refinance, in part or in full, new or existing projects that are eligible as “green projects.” The core elements are the use of funds, project selection, fund management and reporting. Issuance funds are exclusively allocated to finance activities with environmental benefits, including intangible assets.⁹ These instruments consider environmental benefits such as mitigation and/or adaptation to climate change, biodiversity conservation, natural resources conservation, or the control of air, water and soil pollution. Green bonds may also have social benefits. For more information on green bonds, please see ANNEX A attached hereto.

Social Bonds: defined by SBP as “bonds whose resources will be exclusively allocated to finance or refinance, in part or in full, eligible social projects, whether new or existing, that are aligned with the four core elements of SBP. The goal of social projects is to address or mitigate a specific social issue and/or obtain positive social outcomes specially, but not exclusively, for a target population.” Just like GBP, SBP consider the use of funds, project selection, fund management and reporting as their core elements. Issuance funds are allocated to projects with social benefits, including but not limited to the access to infrastructure, food security and affordable housing. Social bonds may also have environmental benefits. For more information on social bonds, please see ANNEX A attached hereto.

Sustainable Bonds: are those that finance a combination of environmental and social projects.

⁹ Furthermore, funds may also be partially allocated to finance expenditures related to the project, including but not limited to research, development, training and promotion activities.

3.2 POSSIBLE STRUCTURES FOR GSS SECURITIES

In financial terms, the GSS Securities are structured similarly to traditional securities, with equal characteristics in terms of ratings and structuring processes. In other words, they are instruments that can give resources in the same way as a common debt instrument, with the difference that the use of the resources obtained will be exclusively allocated to finance green, social or sustainable activities or projects, and may be supported by organizations exclusively engaged in the assessment of the transparency in these type of projects.

According to Argentine regulation, the possible structures for GSS issuances are the following:

- **Corporate Bond (CB):** the funds obtained from the issuance are allocated to themed activities or projects (green, social or sustainable), supported by the issuer's balance sheet. Furthermore, the issuance of these securities may be supported by a floating, special or common guarantee, pursuant to Section 3 of Law No. 23.576.
- **Corporate Bond SME:** these instruments are issued by companies classified as SME, according to the CNV regulation, and have a special reporting system, more flexible than the general one.
- **Simple Corporate Bond:** these issuances are identical to the ones mentioned above, but the issuance must be totally guaranteed by a Guarantee Company listed in the CNV.
- **Project Bonds:** issuances of Corporate Bonds aimed at financing projects, both from the public or private sector, and structured through companies exclusively incorporated for such purpose, with the exception of issuances under Section 83 of Law No. 26.831, as amended, pursuant to CNV's General Resolution No. 747/2018.
- **Mutual Fund:** Funds obtained from the issuance of shares of mutual funds created according to Law No. 24.083, as amended, are allocated to themed projects.
- **Financial Trust:** funds obtained from the issuance are allocated to themed projects.

Since the GSS Securities will not differ in structure from other traditional financial instruments, the issuance requirements will be those established for the issuance of securities (CB, mutual funds, financial trust) set forth in the relevant RESOLUTIONS (2013 new text as amended).

3.3 BENEFITS OF THE ISSUANCE OF GSS SECURITIES

GSS Securities provide different benefits not only for issuers but also for investors, as described in the following table.

The main benefits reported by issuers have been the expansion of the investors' base, the improvement of their reputation and the financing of projects through mutual funds, qualified investors and parties interested in social, environmental or sustainable projects. There is also preliminary prove of benefits in duties for certain issuers, driven by a strong demand from investors and a limited supply. In fact, according to the international background, bonds with environmental purposes have been usually oversubscribed.

Benefits for investors	Benefits for issuers
<ul style="list-style-type: none"> ▪ Obtaining financial return comparable to those of the traditional track, with the addition of environmental and/or social benefits. ▪ Contributing to the national climate adaptation, food security, public health, energy supply, among others. ▪ Meeting Environmental, Social and Governing requirements (ESG) of their sustainable investment mandates. ▪ Allowing direct investment to conduct <i>greenings</i> in the so-called <i>brown sectors</i>¹⁰, and activities of social impact. ▪ Increasing transparency and accountability on the use and management of proceeds. 	<ul style="list-style-type: none"> ▪ Providing an additional source of sustainable financing. ▪ Increased alignment regarding durability of instruments and the project lifecycle. ▪ Improving investors' diversification, taking new business opportunities by taking advantage of the growing sustainable development demand and attracting long-term capital. Improving reputation. ▪ Attracting investors' strong demand, which may lead to high subscription and pricing benefits. ▪ In the case of projects on renewable energy, these give the chance to obtain tax benefits pursuant to Law No. 26.190.

¹⁰ "Brown Sectors": sectors of highly polluting activities.

3.4 INTERNATIONAL PRACTICES TO PROVIDE GSS LABELS

Themed assets markets developed voluntarily for the first time with the first green asset, called Climate Awareness Bond from the European Investment Bank in 2007, followed by the green bond from the World Bank in 2008. Subsequently, better practices were developed internationally to guide issuers and offer standard markets in order to keep investors' trust and avoid *green washing*¹¹.

Different tools used to provide investors with safety on environmental and/or social credentials of the financial instruments used have emerged globally, including external reviews. These tools are **recommended** to issuers for the purposes of reinforcing the credibility of the security label used to finance green and/or social projects. The most common types of external reviews are¹²:

- 1) **Second opinion:** an institution with environmental or social expertise that is independent from the issuer may provide a second opinion. This institution must be independent from the security's structuring processes. Usually, the review consists in an assessment of the alignment of the security with GBP/SBP. In particular, it may include an assessment of the issuer's general objectives, strategy, policy and/or processes related to environmental and/or social sustainability, and an assessment of the environmental characteristics of the type of projects aimed at the use of funds.
- 2) **Verification:** an issuer may obtain an independent verification through a comparison with a designated set of criteria, related to business processes and/or environmental/social/sustainable criteria. Verification may focus on alignment with internal or external standards or statements made by the issuer. It may also include a verification of the issuer's internal tracking regarding the use and management of proceeds, impact reports and alignment with GBP/SBP.
- 3) **Certification**¹³: a third-party verification that includes an expert review of the issuer's internal controls and processes against a well-known external green/social standard. A standard defines criteria and the alignment with such criteria is normally tested by qualified and

¹¹ "Green washing": the possibility that projects may not be used to finance the activities stated by the issuer or that projects may not generate the expected impact.

¹² ICMA. "Guidelines for Green, Social and Sustainability Bonds External Reviews", June, 2018. Available on: <https://www.icmagroup.org/green-social-and-sustainability-bonds/external-reviews/>

¹³ Currently, certification is only available for green bonds.

accredited third parties to verify consistency with the certification criteria. Thus, the issuer may certify their green marketable security against an internationally well-known and publicly available standard, such as the Climate Bonds Standard¹⁴.

- 4) **Rating/scoring:** it consists in an assessment of GSS Securities and their internal controls and processes, with a third-party rating methodology. Third parties may be specialized analysis providers or rating agencies, according to an established scoring/rating methodology.

3.5 GOALS OF THE GUIDELINES FOR ISSUANCE OF GREEN, SOCIAL AND SUSTAINABLE SECURITIES IN ARGENTINA

The development of the Guidelines regarding GSS Securities establishes a point of reference and the basis to promote the creation and growth of themed securities local markets. The Guidelines aim to provide both markets and potential issuers with a guide of best practices and parameters to carry out the development of green, social and/or sustainable securities issuance through criteria standardization.

To that end, those markets intending to establish business segments, panels or grant green, social and/or sustainable labels must take into account the rules established herein. Thus, the CNV shall continue acting as the legal controlling body of financial instruments subject to public offering and, pursuant to General Resolution No. 788, markets are empowered to control the green, social and/or sustainable characteristics of said type of issuance.

The purpose of these Guidelines is to establish the basis for the creation of:

- **Market Rules:** to create standards for the purposes of promoting sustainable financing. This is to contribute to the creation of conditions so that these instruments can be developed in an efficient manner in our country. These rules shall serve as guide for all issuances under the GSS label, regardless of the issuer's characteristics.
- **Sustainable Development Parameters:** to promote investment in assets with solid environmental and/or social credentials which may contribute to meet the demand of the country's sustainable development and infrastructure, assist in climate adaptation, address food security, public health, fight against poverty and unemployment, among others.

¹⁴ An assessment of the standard, including but not limited to the ISAE 3000, defines criteria and the alignment with such criteria is tested by qualified third parties/certifying bodies.

- **Market Integrity:** to provide transparency to investors who seek the themed segment and want to avoid green washing. These rules help build transparency, consistency, standardization, responsibility and trust on markets.
- **Policies Addressed to a Specific Segment:** to clarify priorities and processes to obtain themed labels.
- **Standardization:** to identify clear rules to reduce transaction costs, generate greater volumes and facilitate the creation of scale.

4. DEFINITIONS AND PROCESSES FOR GREEN, SOCIAL AND SUSTAINABLE SECURITIES

4.1 ACRONYMS AND DEFINITIONS

Green security	A security with proceeds allocated to projects with environmental benefits.
Social security	A security with proceeds allocated to projects with social benefits.
Sustainable security	A security with proceeds allocated to projects with environmental and social benefits.
GSS securities	Securities labelled as “green”, “social” and/or “sustainable”.
External Review	Recommended international practice to reinforce credibility of the security’s social, green and/or sustainable characteristics, which involves a verification of the green, social or sustainable credentials carried out by an independent reviewer.
Framework of the related social or green security	A document that describes the issuer’s environmental strategy and their adherence and compliance with GBP/SBP/SGB.
Independent external reviewer or independent reviewer	An entity independent of the issuer, its directors, senior management and advisors, which has been appointed by the issuer to confirm the social, green or sustainable status of the instrument.
Issuer	A company, entity or intermediary registered according to Argentine laws and authorized by the Argentine Securities and Exchange Commission to offer securities to the public.

4.2 SCOPE OF THE GUIDELINES

The Guidelines aim to provide guidance in relation to the standards that must be met by the issuance so as to be considered green, social or sustainable. However, issuers shall be required to comply with all regulations in force on financial instruments in general.

4.3 IMPLEMENTATION

The CNV is the enforcement authority that authorizes the public offering of securities throughout the Argentine Republic. In this sense, these Guidelines have the purpose of promoting the development of these kind of instruments in the Argentine capital market.

The Guidelines are part of an iterative process, which is updated and improved as the market diversifies and more instruments, issuers and assets classes appear. GBP/SBP/SBG and CBS are reviewed once a year.

4.4 COMPLIANCE AND MONITORING

Independent reviewers shall be responsible for validating the green and/or social credentials of GSS Securities in accordance with GBP/SBP/SBG and/or CBI. In turn, markets shall control the submission of external reviews, in the event they are required.

Independent reviewers may be selected from the *Climate Bonds Initiatives* approved list of reviewers available on their website¹⁵, as well as other well-known national or international sources. The independent reviewer must have experience in finance and sustainability and also be responsible for making a report indicating their opinion regarding the chosen security's green, social or sustainable category to channel the selected projects.

¹⁵ <https://www.climatebonds.net>

4.5 USE OF RESOURCES/ALLOCATION OF FUNDS

The issuance's resources shall be used to finance and refinance projects or activities with green and/or social purposes (and their related expenses, such as research and development). All designated projects shall have to provide clear environmental and/or social benefits, and be duly detailed in the issuance prospectus. The use of funds shall have to be properly described in the issuance prospectus and mainly in the report made by the independent external reviewer.

The issuer shall have to provide information regarding the following:

- The categories of eligible green, social or sustainable projects to which the funds will be allocated.
- The refinancing of specific projects to which resources have been allocated.

For green securities, the adoption of eligible projects or purposes is proposed for the categories identified in the *International Climate Bonds Taxonomy*¹⁶ and GBP/SBP¹⁷. In the case of local, regional, national or international taxonomy availability that determines the environmental, social and/or sustainable nature of an asset, it may be taken into account as long as it is supported by an external review.

For social securities, the adoption of categories of eligible projects is proposed for those identified under SBP¹⁸. Consequently, for sustainable securities, eligible projects are included in the previous categories, due to the fact that they combine social and environmental purposes.

4.6 PROJECT SELECTION

The issuer shall have to define the projects that will be financed by describing in the issuance prospectus the estimated impacts based on their possibility of measurement pursuant to the provisions set forth within the framework of the issuer's related green and/or social security. According to GBP/SBP, issuers shall establish, document and keep a decision-making process to determine project eligibility and that includes the following:

- a) A statement about the environmental and/or social purposes of the selected financial instrument.

¹⁶ <https://www.climatebonds.net/standard/taxonomy>

¹⁷ This information is included in Annex A.

¹⁸ To obtain more information about said projects, please see Annex B.

- b) Processes to determine the project eligibility.
- c) Eligibility criteria, exclusion criteria or any other process used to identify and manage the environmental and/or social risks associated with projects.

4.7 FUND MANAGEMENT

In order to ensure that resources coming from this type of issuance are used in accordance with the principles agreed upon at the moment of their issuance, these assets shall be allocated to specific accounts or other reliable methods that guarantee traceability and transparency in the use of funds.

In this way, the issuer shall have a formal process to monitor the funds obtained until their total allocation, making a distinction between the resources invested and those that have not been allocated. Resources that have not yet been allocated to a project may be invested temporarily in other financial instruments and this information shall have to be given to investors.

Some of the recommendations for resources management include methods to:

- Follow up the allocation of funds:
 - a) Net proceeds may be credited into a sub-account or tracked in another appropriate way. As an example, the funds obtained may be credited into a bank account specific for projects of the social, green and/or sustainable financial instrument selected to channel them.
 - b) Funds must be allocated within TWENTY FOUR (24) months after the issuance. Otherwise, the issuer shall be entitled to submit a timeline or estimated schedule to make said final allocation.
 - c) A specific allocation process can be used to manage and account for the financing of eligible projects.

- Manage unallocated proceeds¹⁹.

4.8 EXTERNAL REVIEW

External reviews should be developed to reinforce the credibility of the green, social or sustainable label. It is one of the best global practices aimed to

¹⁹ See Item 4.12 for more details.

provide transparency and certainty to investors. External reviews approved by ICM are described in Item 3.4. The following is also recommended:

- a) The review should be made by an independent external reviewer.
- b) The independent reviewer may be one of those approved by *Climate Bonds Initiative*²⁰ although it may also be selected among other of local or international nature that may be developed in the future.
- c) The independent reviewer should have experience in the analysis of technical characteristics and performance of projects with green and/or social benefits.
- d) The credentials of the independent reviewer and the scope of the review carried out should be made available to investors on the issuer's website and should be informed upon request for authorization for the issuance process.
- e) The benefits related to the use of funds are assessed and, when possible, quantified and included in the review.

4.9 EXCLUSIONS

Markets may withdraw the themed label if issuers do not meet the requirements specified herein and in the regulations in force set forth by the markets. Therefore, a GSS security may lose its label if:

- It does not meet the criteria related to the use of funds.
- It does not comply with its reporting obligations.
- it does not comply with the issuances stated in the market regulations created to that effect.

In line with the regulations in force, the CNV reserves the right to apply the relevant disciplinary measures upon any breach identified under the control of the CNV.

4.10 POST-ISSUANCE

The issuer of GSS Securities shall be subject to all the requirements applicable to the securities described in Item 3.2.

²⁰ <https://www.climatebonds.net/certification/approved-verifiers>

4.11 SUBSEQUENT PUBLICATION

The issuer shall provide and keep information on the use of funds updated and readily available. Said information shall be renewed annually until its total allocation and shall be subsequently available as necessary in the event of a relevant event, by means of a report on the impact of the security issued during its validity, and until all funds have been allocated (Report). It is suggested that the report be validated by an independent external reviewer for its subsequent publication on the issuer's website, on the market website and on the Online Financial Information Tool of the CNV.

The report shall include the following:

- a) A brief description of the projects and the amounts disbursed, including (when possible) the percentage of revenues that have been allocated to different eligible sectors and types of projects, and to financing and refinancing²¹. The expected impact of projects and assets²².
- b) Qualitative performance indicators and, when possible, quantitative measures of project impact performance.
- c) Disclosure of the methodology and the underlying assumptions used to prepare the performance and measuring indicators.

In order to create a harmonized framework for the publication of reports on the impact of green projects, the impact report task force of ICMA's *Green Bond Principles* developed voluntary guidelines that include recommendations for the creation of impact reports, especially for projects related to energy efficiency, renewable energy, water and wastewater and waste management.

Some of the main recommendations are the following:

- (i) To define and disclose the period and process to include projects in the reports.
- (ii) To indicate the total amount issued and the amount of funds allocated to green projects.

²¹ Should there be confidentiality agreements that prevent the disclosing of certain information, these shall be disclosed in general terms.

²² In the case of green securities, the use of performance qualitative indicators is recommended, and when possible, the use of performance quantitative measures such as "energy capacity, electricity generation, reduced/prevented greenhouse gas emissions, quantity of persons with access to clean power, reduction of water consumption, reduction of the quantity of requested cars, etc." is recommended. 2017 Green Bond Principles (GBP), on https://www.icmagroup.org/assets/documents/.../Green.../Spanish-GBP_2017-06.pdf

- (iii) Issuers should provide a list of projects to which funds have been allocated.
- (iv) The impact report should show the expected environmental impact as a result of the projects to which funds have been allocated.
- (v) It is recommended to inform the estimated useful life results and/or the economic life of the project (in years) in order to understand the impact throughout its useful life.
- (vi) The task force suggests four basic indicators to inform the results on projects related to energy efficiency (EE) and renewable energy (RE): (1) annual energy savings (EE); (2) greenhouse gas emissions (GHG); reduced or prevented (EE and RE); (3) annual renewable energy produced (RE), and (4) the capacity of renewable energy plants built or reinstated (RE).²³

Likewise, the impact report task force of ICMA's social bonds developed its voluntary guide with the purpose of harmonizing social bonds reporting practices²⁴. In addition, this task force created an impact report model that includes quantitative and qualitative measures that issuers can adapt according to the project's specific characteristics.

Some of the main recommendations are the following:

- Issuers shall identify the population/s for which positive socioeconomic results are expected. It is recommended that issuers provide additional information on why a specific population was selected. For example, explaining why the selected population is considered unattended or vulnerable.
- Issuers shall report the expected social impact that shall result from the projects to which the funds obtained from social bonds have been allocated.
- Impact indicators: the use of quantitative and qualitative metrics is suggested.

²³ For more information on the recommendations mentioned in the impact report, go to: <https://www.icmagroup.org/green-social-and-sustainability-bonds/resource-centre/>

²⁴For more information about the recommendations for the impact report and report template, go to <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Framework-for-Social-Bond-Reporting-Final-140618v3.pdf>

4.12 MANAGEMENT OF UNALLOCATED FUNDS

It is recommended that proceeds that have not been allocated to specific projects:

- a) Be kept in temporary investment instruments or be temporarily allocated to reduce indebtedness.
- b) That green and sustainable projects do not include, in temporary investments, projects that are inconsistent with a low-carbon and climate-resilient economy and with Argentine climate change policies.

ANNEXES

ANNEX A:

International Processes

The Green Bonus Principles (“GBP”) and the Social Bonds Principles (“SBP”) are a set of principles underlying the processes of issuance and dissemination of green and/or social bonds. They are an initiative led by the industry, boosted by ICMA, that promotes the idea that green and/or social bonds are characterized by the use of funds in green and/or social projects, rather than by the issuer’s characteristics.

GBP were launched in 2014 and since then they have undergone annual revisions; their latest update was in 2018. Meanwhile, in 2017, ICMA launched the Social Bonds Principles.

Both principles constitute a guide to set adequate management processes for the use of funds and, likewise, in order to guarantee transparency and credibility, suggest using independent reviewers to provide green and/or social credentials to projects.

Both GBP and SBP are based on four pillars, which highlight the informative duties and guide the issuer in four areas:

- a) **Use of Funds:** bond funds shall be allocated to “Eligible Green Projects” and/or “Eligible Social Projects” that shall be adequately described in the documentation of the instrument. GBP/SBP explicitly acknowledge several generic eligibility categories of Green and/or Social Projects with the purpose of addressing key areas of environmental and/or social concern.
- b) **Project Selection and Assessment Process:** For project selection, the issuer shall clearly inform: (i) environmental sustainability objectives and/or social objectives; (ii) the process by means of which the issuer determines how projects fit into the categories of eligible green and/or social projects; and (iii) the related eligibility criteria and any other process applied to identify and manage environmental and social risks.
- c) **Fund Management:** Net funds obtained from the Green and/or Social bonds, or an amount equal to these net funds, should be credited into a sub-account, transferred to a sub-portfolio or, in any case, be appropriately controlled by the issuer, who should also verify it in an internal and formal way related to the credit and investment operations for Green and/or Social Projects.
- d) **Reports:** Issuers shall have to keep the information related to the use of funds of green and/or social bonds updated and available for the

investor. Said information shall be updated annually until their complete allocation. Reports shall include a list of the projects to which green/social bonds funds have been allocated as well as a brief description of the projects and amounts allocated and their expected impact.

The *International Climate Bonds Standard* is a standard for green bonds that is consistent with GBP and adds a definition of green assets consistent with the COP21 Paris Climate Agreement, which advocates limiting global warming to less than 2 degrees by the end of the century.

- The *Climate Bonds Taxonomy*²⁵ aims to foster common definitions in global markets, in a way that supports the growth of a green bonds market.
- Criteria based on science and specific to each sector are developed to ensure that environmental objectives are met and are consistent through the application of the classification.
- *Climate Bonds Initiative* acts as secretariat calling technical groups of experts to develop criteria²⁶, industrial task force with business leaders to test their feasibility and finally the *Climate Bonds Standard* Board consists of investors with environmental mandates that approve these criteria.
- Certified climate bonds currently represent 15% of the market worldwide and certification is the dominant practice in the national markets of Australia and India, as well as for the international issuance of Chinese and Indian issuers, among others.

²⁵ A more detailed version of the taxonomy may be found in:
<https://www.climatebonds.net/standard/taxonomy>

²⁶ Specific information available on specific sectors may be found on:
<https://www.climatebonds.net/standard/sector-criteria>

ANNEX B:

Categories of Projects according the GBP and SPB Criteria²⁷

The following project lists are used as reference and include the types of projects accepted by GBP and SBP. In this regard, they do not exclude other categories or types of projects that may appear after the Guidelines²⁸.

SOCIAL BONDS:

Funds obtained from a social bond may be used in any of the following project categories:

- Affordable basic infrastructure (for example drinking water, sewerage, sanitation, transportation).
- Access to essential services (for example health, education and professional training, medical care, financing and financial services).
- Affordable housing.
- Generation of employment, even through the potential effect of financing SMEs and microfinance.
- Food safety.
- Advancement and socioeconomic empowerment.
- Gender equality.

Social Bonds Principles provide examples of populations that may be subject to the social project financed through social bonds, and they include, among other, the following:

1. Population below the poverty line.
2. Populations and/or communities excluded and/or marginalized.

²⁷ Projects are detailed in accordance with the Social Bonds Principles. For more information, go to: <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

²⁸ Issuers and other interested parties may check different examples by clicking on the following link: www.icmagroup.org/gssbresourcecentre

3. Vulnerable groups, even as a result of natural disasters.
4. People with disabilities.
5. Migrants and/or displaced people.
6. People without education.
7. Unattended population.
8. Unemployed people.

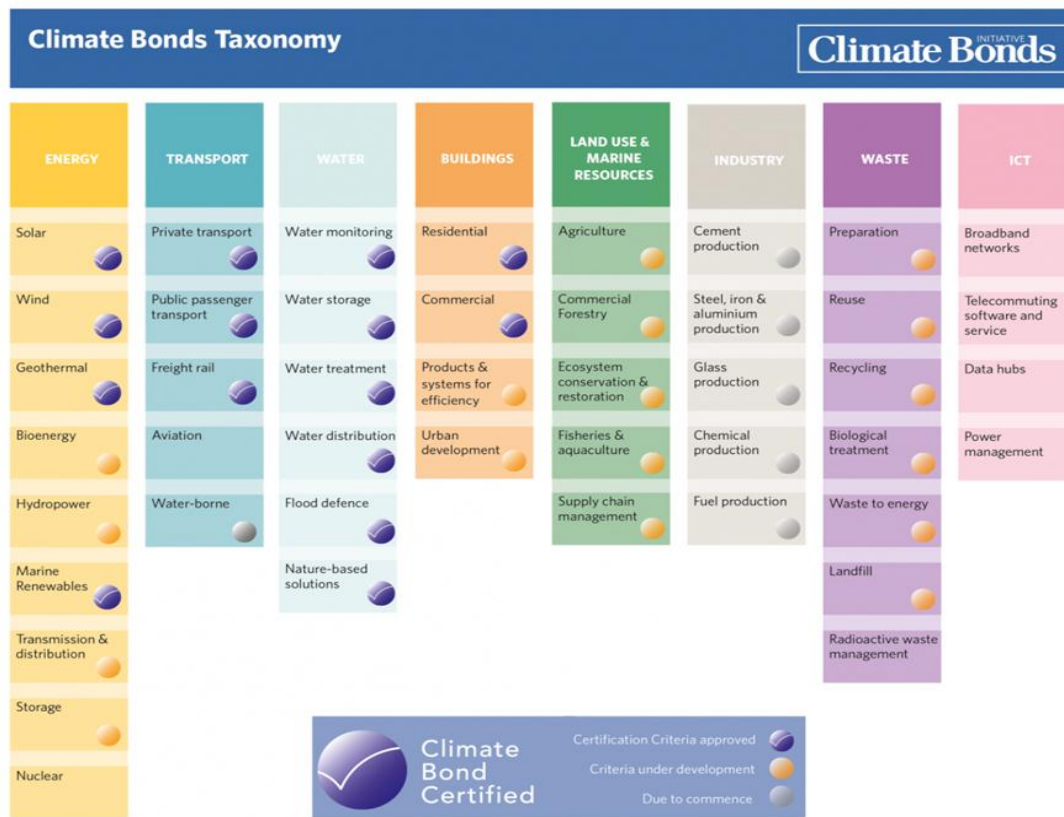
GREEN BONDS:

Funds obtained from a green bond may be used in any of the following project categories:

- Renewable energy (generation, production and transmission of energy from renewable sources, devices and products).
- Energy efficiency (for example new and restores buildings, energy storage, thermal enclosures in buildings, district heating, efficient water heaters, solar water heaters, smart grids, household appliances and products, etc.)
- Pollution prevention and control (for example: wastewater treatment, reduction of atmospheric emissions, control of greenhouse gases, soil remediation, waste prevention, waste reduction, waste and energy recycling, efficient waste emissions for energy, value added waste products and remanufacturing, and associated environmental monitoring, etc.)
- Environmentally sustainable management of living natural resources and land use (for example: environmentally sustainable agriculture, environmentally sustainable animal breeding, climate smart agricultural inputs, biological crop protection, drip irrigation, sustainable fisheries from the point of view of environmental vision and aquaculture, environmentally sustainable forestry, reforestation and preservation or restoration of natural landscapes, etc.)
- Conservation of terrestrial and aquatic biodiversity (for example: protection of coastal, marine and river basin environments, etc.)
- Clean transport (for example: electric, hybrid, public, rail, non-motorized, multimodal transport, infrastructure for clean energy vehicles (bike paths or cycle paths), and reduction of harmful emissions, etc.)

- Sustainable management of water and wastewater (for example: sustainable infrastructure for drinkable and clean water, wastewater treatment, sustainable urban drainage systems and training in rivers and other forms of flood mitigation, etc.)
- Adaptation to climate change (for example: information support systems, climate observation and early warning systems, etc.)
- Products, production technologies and processes adapted to the ecological economy and/or circular economy (such as, for example: development and introduction of products that respect the environment with an ecological label or environmental certification, efficient packaging and distribution in terms of resources, etc.)
- Ecological buildings that meet regional, national or international standards and certifications.

CATEGORIES OF "GREEN PROJECTS" DEFINED IN THE CLIMATE BOND STANDARD



ANNEX C: Resources and Support Tools

UNDERSTANDING THEMED BONDS

<https://www.climatebonds.net/resources/understanding>

<https://www.icmagroup.org/green-social-and-sustainability-bonds/questions-and-answers/>

INFORMATION TEMPLATES (GBP)

https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Resource-Centre/Market-Information-Template_Green-Bonds-071117.docx

https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Resource-Centre/Market-Information-Template_Social-Bonds-071117.docx

https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Resource-Centre/Market-Information-Template_Sustainability-Bonds-071117.docx

IMPACT REPORTING HARMONIZATION FRAMEWORK

<http://www.ifc.org/wps/wcm/connect/f932dc004ad996538a1fea4fb4720a61/Updated+logo+FINALPROPOSALIRH+CLEAN.pdf?MOD=AJPERES>

CLIMATE BOND APPROVED VERIFIERS

<https://www.climatebonds.net/certification/approved-verifiers>