GREEN BOND GUIDE AND SOCIAL FOR ECUADOR

2020

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MESSAGE FROM THE MANAGEMENT

The fundamental objective of the Stock Exchange de Valores de Quito is to generate more market, that is, there is more supply and demand of securities in the Ecuador, for which we align ourselves to bag practices values around the world.

The current trend revolves around Sustainable Finance, therefore, the BVQ is participating actively at the SDG 4 tables (Quality education), ODS table 16 (Anti-corruption) and SDG 7 table Energy exequible Y not pollutant. It is also part of the Sustainable Stock program United Nations Exchange and is an observer member of the Greens ICMA's Bond Principles. To level local, is a member of the committee expanded sustainability of the ASOBANCA.

With this background, we saw the need to market Ecuadorian stock products that align with the trend of current sustainability called Bonds Green, Social Y Sustainable

Through this medium of financing, the Business ecuadorian they can obtain resources for your projects sustainable. On the other hand, being financial instruments highly desired in the markets international, we consider that these instruments can attract foreign direct investment to Ecuador and in this way, contribute to the strengthening of dollarization.

I. BASIC ASPECTS

GREEN BONDS

Definition and origin

A Green Bond is a fixed income debt instrument with 2 particularities:

1. The resources obtained through the issuance of the Green Bond must be allocate to activities that contribute to the mitigation or adaptation of change climate.
This definition is broad and is based on the guidelines described in the Green Bond Principles issued by the International Capital Markets Association (ICMA). The guidelines are explained in Literal 5 of this Chapter. The complete guide can be found in all languages on the ICMA website www.icmagroup.org

2. The destination of the resources and their subsequent use must be verified by a

authorized third party so that paper investors have the assurance that your investment is being used for sustainable purposes.
There are several types of observation for Green Bonds such as the Verification, Second Opinion, Certification, Qualification, among others.

Green Bonds are debt instruments normally issued in installments older than one (1) year, whose resources are used in part or in full exclusively to the financing or refinancing of green projects new and / or existing that generate positive environmental impacts.

This type of financial instrument originates due to the need to give a response to those investors who believe in sustainable investment in green products and are concerned about climate risks.

This type of bond can be issued both by private sector entities, as well as by those who make up the public sector (central government, governments decentralized freelancers, etc.)

The origin and chronology of the Green Bonds is shown below.

Source: Climate Bonds Initiative data. Elaboration: Quito Stock Exchange.

The Green Bond market has experienced considerable growth since its appearance in 2007, becoming an important market which began to take off in 2014 with a global issuance amount of USD 37 billion.

In Latin America, the first structured and issued Green Bond was in charge of the Development Bank of Latin America (CAF). I know placed for an amount of COP 150,000 million (USD 52.2 million) at a term of 10 years and a coupon of 6.75%, with JP Morgan as the bank in charge of placement.

Source: Climate Bonds Initiative data. Elaboration: Quito Stock Exchange.

Some studies indicate that the issuance of Green Bonds arises from the need to finance the 1% that represents the cost of world GDP, in order to avoid negative environmental impacts. This percentage resulted in the issuance of securities called Green Bonds for financing and contribution with green end projects.

The World Bank estimates that globally, between 2015 and 2030, it will be necessary invest USD 93 trillion in climate-resilient and low-carbon infrastructure, mainly in developing and middle-income countries, in order to mitigate environmental problems and deal with the social consequences and economics of climate change.

Standards established in Ecuador

The Quito Stock Exchange has established as its standard that the Green Bond issues must be, at least, within the framework of Green Bond Principles (GBP) reference.

In addition, it must contain at least one Verification issued by a company authorized by the Climate Bond Initiative (CBI).

To learn more about BVQ approved verifiers, please go to chapter V number 3 of this guide or to the CBI website www.climatebonds.net

Types of green instruments according to their use

BVQ elaboration. Source: USAID - Financial Innovation Pilot Program.

Supranational, quasi-sovereign and agency bond (SSA):
Bonds issued by international financial institutions such as the Bank World Bank and the European Investment Bank (i.e. "issuers supranational "). SSA bonds have characteristics similar to bonds corporate. Agency bonuses fall into this category (for example, those issued by export and import banks), as well as banks quasi-sovereign development nationals.

Municipal bond:
Bonds issued by a municipality, government, region or city.

Sovereign bond:
Bonds issued by a national bank or government. Like the one issued by France in 2016, whose income is destined to meet its obligations under of the Paris climate agreement, protect biodiversity and fight against contamination.

Examples of green projects:

Eligible Green Projects categories, listed in no specific order, include, but are not limited to:

Renewable energies (including production, transmission, devices and products

Energy efficiency (**energy** storage, district heating, networks smart devices, devices and products)

Pollution prevention and control (reduction of atmospheric emissions cas, greenhouse gas control, soil decontamination; prevent tion, reduction, recycling and efficient transformation of waste to energy)

Sustainable management of natural resources and land use (agriculture and farming sustainable animal husbandry, smart agricultural inputs for the climate, fisheries and aquaculture, sustainable forestry)

Conservation of terrestrial and aquatic biodiversity (including the protection of coastal, marine and watershed environments)

Clean transportation (such as electric, hybrid, public, rail, no motorized, multimodal, infrastructure for clean energy vehicles and reduction of harmful emissions)

Sustainable water and wastewater management (sustainable infrastructure for potable and clean water, wastewater treatment, urban drainage, river training and other forms of mitigating floods)

Adaptation to climate change (information support systems, such as the weather observation and early warning systems)

Products adapted to the ecological and / or circular economy, technologies and production processes (such as product development and introduction respectful with the environment, with an ecolabel or certification environment and resource-efficient packaging and distribution)

Green buildings that meet standards or certifications recognized regionally, nationally or internationally

BVQ elaboration. Source: USAID - financial innovation pilot program

Standards and Certifications

The internationally accepted guidelines for verifying Green Bonds are the Green Bond Principles of the International Association of the Market of Capitals (ICMA). In the event of wanting to go one step further later, an issuer can Label / Certify its emission through Climate Bond Standard of the Climate Bonds Initiative (CBI) organization, who in turn instead they issue criteria within the GBP framework.

Green Bond Principles

The principles created by ICMA constitute procedural guides for the issuance of Green Bonds, whose objective is to promote transparency and disclosure of information, promoting integrity in the development of the capital market. [1]

GBP Green Bonds Principles have four components or pillars main ones that are: [2]

Use of funds

It consists of the use of the bond funds for green projects, which they must be adequately described in the issuance process.

In general, a project is green as long as it generates benefits demonstrable environmental; for example: in renewable energies, efficiency energy, pollution prevention and control, sustainable management of

[1] http://sedici.unlp.edu.ar/bitstream/handle/10915/72307/Documento_completo.pdf-PDFA.pdf?sequence=1&isAllowed=y, pg. 8
[2] https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/

natural resources and land use, biodiversity conservation terrestrial and aquatic, clean transport, sustainable management of water and wastewater, adaptation to climate change, products adapted to ecological and / or circular economy, technologies and production processes, ecological buildings, among others.

There are currently several international initiatives that provide taxonomies that allow to give a greater orientation of what can be considered eco-friendly and eligible.

Evaluation and selection of eligible projects

This principle is related to communication to investors by part of the issuer of Green Bonds of the following points:

The objectives of environmental sustainability.

Parameters in which the issuing company entered to consider green projects.

Related eligibility criteria, including, if applicable, the criteria exclusion or any other process applied to identify and manage Potentially material environmental and social risks associated with Projects.

GBP encourages a high degree of transparency and recommends that the The evaluation and selection process is complemented by an external review.

Fund management

Guidelines for the correct handling, by the issuer, of the funds obtained. These include complementing the exercise with participation from an auditor or a third party to verify the internal processes that allow the allocation and use of resources.

The net funds obtained from the Green Bond must be managed in a manner appropriate and transparent.

Reporting and communication

An annual report must be made on the use and destination that has been given to the resources obtained through this financing mechanism, the periodicity of preparing the report may vary in case of extraordinary situations or events.

Said reports must include a series of indicators and information that allows the investor to understand the use made of their resources and the impact generated or expected environment.

Issuers must have and maintain up-to-date information easily available on the use of funds, which will be updated annually until its total redemption.

Climate Bonds Standard

For their part, the Climate Bonds Standard consist of a process of Certification that includes compliance with pre-issuance requirements and compliance with post-issuance requirements: [3]

Pre-issuance requirements

Selection process of projects and assets that will be financed through the bond resources. On the other hand, the resources raised must be stored by the issuer in a subaccount or transferred to a sub-portfolio, in order to keep them identified at all times.

In turn, the issuer must establish internal processes and controls that allow these resources to be managed and to inform in which areas they will be invested, time to indicate the authorized verifier with whom you will work both on the stage prior to and after the issuance of the bond.

Post-issuance requirements

The issuer must continuously maintain the destination to which they are focused the resources to be captured from the investing public. In the same way, must allocate resources to selected projects and assets within 24 months after the issuance of a Green Bond. In case within This term the total resources have not been assigned, the issuer must inform in the subsequent report, the estimated timeline to carry out said final assignment.

On the other hand, net resources must be identified at all times. by the issuer in an adequate and documented manner.

Regarding the information to be delivered for investors and Climate Bonds Standard Secretariat, the issuer must report at least annually, to Through a report, the list of projects and assets to which the allocate (or reallocate) the bond resources, incorporating the amounts assigned to each of these, together with the expected impact of said Projects.

Like the Green Bond Principles, the Climate Bonds Standards ask issuers include qualitative indicators of project performance financed, together with, where possible, quantitative indicators with regarding the expected impact.

[3] https://www.climatebonds.net/files/files/Climate%20Bonds%20Standard%20v2_1%20-%20January_2017.pdf

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To obtain the Green Bond Certification under these guidelines, emissions must be evaluated and certified by an external verifier. [4]

According to the International Capital Market Association (IMCA) 2018 establishes the following table as a comparison between standards:

(*) GBP: Green Bonds Principle (*) CBI: Climate Bonds Initiative

[4] https://www.climatebonds.net/certification/get-certified

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Climate Bonds Taxonomy

The Climate Bonds Initiative Taxonomy is a tool for issuers, investors, governments and municipalities that serves as a guide that identifies whether assets and projects are aligned with the climate and are eligible for green or climate finance.

It is intended to be an important resource for green definitions

common in global markets, in a way that supports the
growth of a bond market that offers a low-income economy
carbon.

For this, a traffic light system was adopted that allows identifying if the identified assets and projects are considered compatible automatically with a decarbonization path.

When a detailed analysis of a sector has been carried out and eligibility criteria, the bonds can be certified as Climate Bonds; on the contrary, when the criteria are still under development, the bonds of that sector could not yet be certified according to Climate standards Bonds Standard.

The sectors established within the Taxonomy of the Climate Bonds Initiative are as follows:

Energy
Transport
Water
Building
Use of land and marine resources
Industry
Waste
Information and communication technology

Source: Climate Bonds Initiative

Evolution of Green Bond issues worldwide

The issuance of Green Bonds reached record figures in 2019, registering emissions worth USD 254 billion, which represents an increase of about 50 percent compared to 2018 with a value of USD 171 billion.

Source: Climate Bonds Initiative

Source: Climate Bonds Initiative

When analyzing the monthly figures for 2019, in the month of December there was an emission total of USD 13 billion, being an amount higher than that registered in the month of December 2018 with a value of USD 11 billion.

In the following graph we can see that the months with a higher amount of issuance in 2019 were the months of May and October with issuance amounts that reached values of USD 29 billion and USD 28 billion respectively.

Source: Climate Bonds Initiative

On the other hand, different are the types of issuers that have structured and placed these instruments on the market during 2019, such as: multilateral development banks, financial institutions, companies, municipalities, public service companies, among others, as can be look at the following graph:

Source: Climate Bonds Initiative

The following graph shows the recovery that has existed in the amounts issued in green bonds, mainly due to the pandemic due to COVID-19 facing markets globally, which has led to that various organizations actively participate with new emissions of instruments for social purposes related to combating damage caused by the pandemic.

For the month of April 2020, green bonds were issued for a value of USD 16 billion, which represents a slight decrease compared to the same month of the year 2019; but compared to the month of March 2020, there is an increase of 395% with emissions that reached USD 3.3 billion.

Source: Climate Bonds Initiative (CBI)

Source: Climate Bonds Initiative

According to the Climate Bonds Initiative, outstanding bonds in billions of dollars is reflected in the following graph:

Source: Climate Bonds Initiative

On the other hand, the statistics of the yields of the Bonds are presented. Greens versus global dollar and euro bonds:

(*) till March.
Source: Allianz Global Investors (2018)

Finally, the evolution of emissions by markets is detailed below:

Source: IFC Global Macro & Market Research - Bloomberg Dealogic Environment Finance, Climate Bonds Initiative

Amounts traded and Green Bond Issuers by LAC countries - Agreement
Free trade.

Source: Climate Bonds Initiative (CBI). Prepared: Quito Stock Exchange

Green bond issuance in LAC has recovered strongly in 2019, driven by Chile's two sovereign green bonds. It should be noted that Only 9 of the 33 LAC countries have issued green bonds, in this 2019, Ecuador joins the issuance of green bonds, where thanks to the Quito Stock Exchange and different actors the issuers can now negotiate these types of securities.

SOCIAL BONUSES

Definition and origin

Social Bonds are those financial debt instruments that are destined to finance or refinance, totally or partially, new projects or in march that improve the social environment and generate positive social results, thus promoting sustainable development.

These instruments are considered as a fixed income security (Debt), when just like corporate bonds or government bonds.

This type of bond must comply with international principles published by ICMA, a non-profit association made up of March 2020 by around 600 members from 62 different countries, whose

purpose is to promote transparency, disclosure of information
and integrity in the Social Bond market. This is the same association that issues the principles of Green Bonds.

Standards established by the Quito Stock Exchange

The Quito Stock Exchange has established the standard for the market Ecuadorian that the issuance of Social Bonds must be, at least, within the framework of the Social Bond Principles (SBP) described in Section 5 of this Chapter, or on the ICMA website.

In addition, it must contain at least one Verification issued by a company authorized by the Climate Bond Initiative (CBI).

To learn more about BVQ approved verifiers, please go to chapter V number 3 of this guide, or to the CBI website www.climatebonds.net

Types of Social Instruments according to their use

Examples of Social Projects

In accordance with their issue, the purpose of the Social Bonds or the Examples applicable to this type of financial instrument are:

To be an instrument to fulfill the objectives of the 2030 Agenda for Sustainable Development that is part of the United Nations program United.

Solve or mitigate a specific problem in a population, promote the equality, satisfy unmet basic needs and contribute to the human social development.

The projects are focused on meeting the needs of populations or subjects who incur one or more of the criteria exemplified below continuation:

Living below the poverty line
Excluded and / or marginalized populations and / or communities
Vulnerable groups, even as a result of natural disasters
People with disabilities
Migrants and / or displaced persons
Low-educated populations
Neglected populations, due to lack of quality access to essential goods and services
Unemployed

Standards and Certifications

The Social Bond Principles (SBP), created by International Capital Markets Association (ICMA), supported by the World Bank, are a series of standards and processes that aim to promote transparency, dissemination and integrity in the development of the Social Bond market, and correspond to the roadmap that issuers should follow before issuance of a Social Bonus.

They are designed to guide issuers on key components necessary to issue Social Bonds, as well as provide information to help investors assess the social impact of investments made in this type of bond.

Among the main aspects are:

Use of resources

The main characteristic of a Social Bond is the use of its resources for social projects, which must be duly described in the documentation of the value.

In case these resources were to be used to refinance projects, it is recommended that the issuer indicate an estimated proportion between what it will finance and what it will refinance with the proceeds from the bond.

Process for project evaluation and selection

The issuer of a Social Bond must clearly communicate to the investors the following:

The social objectives.

The process by which the issuer determines how projects fit together within the categories of Social Projects.

Related eligibility criteria, including, if applicable, the criteria exclusion or any other process applied to identify and manage Potentially material environmental and social risks associated with Projects.

Resource management

The net resources obtained by the Social Bonus, or an amount equal to these resources must be credited, for example, in a subaccount, managed in a portfolio or be identified by the issuer in a way adequate, being clear at all times the traceability of resources.

Reports

Issuers must generate and maintain available and up-to-date information at all times on the use of resources, which will be renewed annually up to the total allocation of the bonus resources.

This information should include the list of projects for which the Resources of the Social Bonus will be assigned, as well as a brief description of each project and the expected impact, together with the amounts allocated for each one of them.

In order to maintain transparency towards investors about the expected impact of the projects, SBPs recommend the use of qualitative indicators, as well as, where feasible, quantitative measures (for example, number of beneficiaries within the population segment objective), and the publication of the associated methodology and / or the assumptions used in the quantitative determination which should be incorporated into regular reports to investors.

Pre-broadcast report

to. Indicate the context of the issuance and ESG performance of the issuer:

The report must first contain a description of the context in the which is framed the issuance of the Social Bond, where reference is made to the ESG performance of the[5] issuer, along with the motivations that prompted the broadcast.

b. Indicate the issuer's level of adherence to the Social Bond Principles:

The report should reflect, based on the opinion of the Third Party Verifier, the level of the issuer's attachment to each of the 4 Social Bond Principles.

c. Provide general information on the projects to be financed:

The report must contain all general information on the projects to be finance through issuance.

d. Indicate the expected impact on society of the projects financed:

The report should stipulate, in general terms, the expected impact it will have in society, each of the projects financed through the issuance

[5] ESG: Enviroment Social and Governance, represent criteria that take environmental, social and governance factors as a reference. corporate.

such as, for example, jobs generated through boosting financing of small and medium-sized companies, among others.

and. Qualitative and quantitative measures:

The expected social impact that each of the projects to be financed will have, It must be complemented with the declaration of the qualitative measures and, where feasible, the quantitative measures that will be used for its measurement, such as through KPIs, in addition to methodologies[6] and assumptions used in the preparation of these indicators.

Post issuance report

The report must contain the following:

to. Provide general information on the projects to be financed:

The report must contain all general information on the projects to be finance through issuance.

b. Indicate amount and percentage distribution of income from the emission:

The report must indicate the allocation of income from the emission for each of the projects selected prior to the issuance, so that investors, and the market in general, have access to sufficient clarity on the use made by the issuer of said income. Along with the above, and when feasible, allusion should be made to the use that will be given to income that has not yet been allocated to projects initially selected by the issuer.

c. Results of qualitative and quantitative measurements:

Incorporate the real impact that the selected projects have had to be financed by the issuance once implemented through the measures qualitative and quantitative declared by the issuer prior to issuance, in If these have already ended and there are still bonus funds to be assigned, as well as the expected impact of these, in case they are still implementing.

d. List of Social Bonds issued to date by the issuer:

The report must include the list of Social Bonds issued to date by the issuer, if any.

[6] KPI: Key Performance Indicators / Key Management Indicators

SUSTAINABLE BONDS

Definition and origin

Based on the project objectives, the product can be defined as a Social Bonus or Green Bonus, but if the project's objectives have both social and environmental (green), are called Sustainable Bonds.

The issuer may choose and combine a portfolio of projects that qualify within GBP and SBP to issue a sustainable bond.

Standards established by the Quito Stock Exchange

The Quito Stock Exchange has established the standard for the market Ecuadorian that the issues of Sustainable Bonds must be, as minimum, within the frame of reference of the Principles of Social Bonds and the Green Bond Principles mentioned in the previous chapters.

In addition, it must contain at least one Verification issued by a company authorized by the Climate Bond Initiative (CBI). To learn more For BVQ-approved verifiers, please refer to Chapter V numeral 3 of this guide, or to the CBI website:
www.climatebonds.net

II. DIFFERENCES BETWEEN A GREEN / SOCIAL BOND AND A TRADIT

A Green, Social or Sustainable Bond has the same financial and legal structure than a traditional corporate bond and, depending on the jurisdiction, must follow the same process for your registration and negotiation in the market of values.

In Ecuadorian legislation, the concepts of "Green Bonus" and "Social Bonus" are assimilable to the "Corporate Obligation", both instruments having the same issuance structure and the same procedure for structuring it and approval.

Notwithstanding that the Green and Social Bond, and the “corporate obligation”, have the same structure and admission requirements, there are two differences fundamental:

Destination of resources

In accordance with the Ecuadorian regulation, the corporate obligation, in a In general, it has two limitations regarding the destination of the resources to be captured. On the one hand, destiny is limited to what the company The issuer determines in the public offering prospectus at the time of the issue; and, on the other hand, the regulation determines that “The resources that are captured through a bond issue, they may not be used for the acquisition of shares or bonds issued by members of: groups financial or economic, private insurance companies or companies or mercantile companies, which are related to the issuer of the obligations;

nor be used to cancel liabilities with related natural or legal persons
in the terms of the Securities Market Law and in the present codification ”.[7]

In Green Bonds or green / social corporate obligations, apart from the two aforementioned restrictions, premium that the resources captured by this means of financing should be used for activities or projects that contribute to mitigating or adapting to climate change.

On the other hand, in the case of Social Bonds, they must be destined to finance or refinance, totally or partially, new projects or in march that improve the social environment and generate positive social results, thus promoting sustainable development.

check

According to the BVQ internal standard, an external third party is required to verify that the use of funds is aligned with the Green Bond Principles, Social and Sustainable

[7] Codification of Resolutions of the JPRMF

III. BENEFITS OF ISSUING AND INVESTING IN GREEN / SOCIAL BONDS IN

The issuance of Green, Social and Sustainable Bonds brings with it the following fundamental advantages over the issuance of other types of instruments or financing mechanisms:

Diversification of financing sources: Green or Social Bonds are desired by local and foreign investors. For example, organisms multilateral organizations such as the IDB and the IFC of the World Bank have shown their interest Firm to invest in these types of bonds from Ecuadorian issuers. To these investors join international investment funds specialized (Green Funds) seeking this kind of investment.

Consolidation of the issuing or investing institution as socially responsible: the use of green financing and investment sources confirms the commitment to sustainability, both of the issuers and the investors.

Great local and international visibility (public issuance): Bond issuers Green or Social in Ecuador will benefit from a wide dissemination of the issuance, thanks to the allies of the Quito Stock Exchange around the world.

It attracts strong demand from investors, which can lead to high oversubscription and pricing benefits.

Supports issuers with environmental risk management.

Provides private sector entities and especially entities of the public sector of an alternative for the financing of works of public infrastructure.

Cross-border trading (AMERCA): In July 2018, the Stock Exchange of Quito was accepted as a member of the Capital Markets Association of the Americas (AMERCA), which incorporates the Republic Stock Exchanges Dominican Republic, Panama, Costa Rica, Nicaragua, Honduras, El Salvador and Guatemala, and whose objective is the negotiation and exchange of values between countries of the association, so that the issuance of Green or Social Bonds in the Ecuadorian stock market they could be negotiated in an agile way and effective in the stock exchanges of the countries mentioned.

Potential benefits for investors:

Financial returns comparable to the sum of benefits environmental

Financial returns comparable to the sum of benefits environmental

Meet environmental, social and governance (ESG) requirements for sustainable investment mandates, that is, when the ESG standards apply to green projects.

Allow direct investment in the "greening" of sectors browns and social impact activities.

Increased transparency and accountability on the use and revenue management.

Tax incentives for investors

Additionally, take into account that stock market services are taxed with VAT. zero fee.

IV. REGULATORY FRAMEWORK APPLIED TO ECUADOR

Considering that both the Green, Social and Sustainable Bonds have the the same financial and legal structure as a traditional corporate bond, and that You must follow the same process for your registration and negotiation in the securities, Ecuadorian legislation and regulations that will allow the issuance, registration and negotiation of these instruments is in force and is applied daily.

The main legal bodies that regulate the stock market are:

to. Organic Monetary and Financial Code, Book II (also called "Securities Market Law") that contains the primary regulations that govern to the market;

b. Codification of Resolutions issued by the Board of Policy and Monetary and Financial Regulation (regulatory body of the Ecuadorian values); Y,

c. Self-regulation rules issued by the Quito Stock Exchanges and Guayaquil.

The negotiation process in the stock market will be the same as that applied to all debt issuance.

V. ACTORS AND ROLES

Who can issue?

GREEN BONDS

Green Bonds can be issued by any type of company in any sector economic, both public and private, whether they are large, medium or little; as long as there is a commitment for there to be a trend towards environmentally responsible investments, that is, there is a clear sustainable strategic objective, through projects that start from scratch or projects already advanced in this matter. Similarly, the Government Central, Decentralized Autonomous Governments and Municipalities can access the financing.

Possible sectors of the economy - Issuers:

Worldwide, according to the Climate Bonds Initiative from 2005 to 2019, the Bonds Greens have been allocated to the following sectors:

Source: Climate Bonds Initiative

SOCIAL BONUSES

Any type of company in any sector can issue Social Bonds economic, both public and private, whether they are large, medium or little; as long as there is a commitment for there to be a tendency towards socially responsible investments, that is, there is a clear sustainable strategic objective, through projects that start from zero or projects already advanced in this matter.

Similarly, the Central Government, Decentralized Autonomous Governments and Municipalities can access financing.

The funds are destined to social projects such as:

Basic infrastructure: drinking water, sewerage, sanitation, transportation.

Services, essential: health, education and vocational training, healthcare, financing and financial services.

Affordable housing.

Generation of employment through boost the financing of the small and medium business.

Food safety.

Strengthening and advancement socioeconomic.

Who can structure public offerings of Green bonds and Social?

The only actors authorized to structure Green and Social Bonds in the Ecuadorian stock market are the Casas de Valores / Bancas de Investment.

These actors will advise on the issuance process in the following terms general:

to. Structuring of the public offer.

b. Compilation of the information required within the approval process.

c. Coordination with the rest of the entities participating in a process of public offering, including the verifier.

d. Structuring of documents (Contracts, prospectus, etc.) necessary for the approval of the Offer.

and. Coordination of approval before controlling entities such as Superintendency of Companies, Securities and Insurance and Stock Exchanges.

Who issues certification for the issuance of Green Bonds or Social?

Both, under the guidance of the Green Bond Principles, and the Climate Bonds Standard, when the issuance of a Green Bond or Social Bond is carried out, issuers may contact an External Verifier to review and confirm the alignment of your voucher or program with standards defined by ICMA.

An issuer may seek advice from consultants or institutions with experience in aspects such as the establishment of a Green Bond framework or in turn in the preparation of emission reports.

External evaluations are grouped into the following types and some consultants or institutions offer more than one type of service, either by separate or combined:

to. Second opinion

Issuers may seek the advice of independent institutions with experience in the environment.

Typically, the process involves an evaluation of the alignment with the Greens. Bond Principles; may include an assessment of overall objectives, strategy, policy and / or processes of the issuer.

b. check

Issuers can obtain independent verification based on a designated set of criteria, which generally relate to processes business and / or environmental criteria.

Verification can focus on alignment with internal standards, external statements or statements made by the issuer. In addition, the evaluation of environmentally sustainable characteristics of the underlying assets can called verification and may refer to external criteria.

The guarantee or certification of the internal monitoring method of income, the allocation of funds from said income resulting from the issue of the Bonds Greens, the environmental impact statement or the alignment of the reports with The Green Bond Principles, can also be called verification.

c. Certification

Issuers can certify their Green Bond, the Green Bond framework or the Use of the Income, according to a standard or green label.

An evaluation standard or label defines the specific criteria, and the alignment with these criteria is normally reviewed by third parties or accredited certifiers, who can verify consistency with the criteria certification.

d. Green Bonds Score

Issuers can make their Green Bond or Green Bond framework or the Use of the Income is evaluated or valued by third parties accredited, according to a rating / scoring methodology established.

The output may include a focus on performance data environmental, Green Bond Principles process or other point of reference, this external evaluation may be partial, covering only certain aspects of the Green Bond or Green Bond framework or may in turn be a complete assessment, which includes the alignment assessment with the four components or pillars of the Green Bond Principles.

The External Verifier in charge of the analysis described above must be one of the those approved by the Climate Bonds Initiative, some of which are show in the following table:

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Pacific Credit Rating (PCR) is the only qualifying group with real and direct presence in Latin America since 1993. Currently it has offices in 11 countries in America Latin and the Caribbean. The Pacific company Corporate Sustainability (PCS) is the business unit of the PCR group dedicated to providing advice on sustainable finance, government corporate and sustainability. Under the PCS leadership, the PCR Group has been an active promoter of responsible investments in region.	All countries of Latin America and the Caribbean	Low transport in carbon/ Infrastructure water / marine energy renewable / Solar energy/ Wind power/ Geothermal / Waste management/ Low buildings in carbon/ Verification of bonds social and sustainable

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What is the channel for trading Green and Social Bonds?

The Ecuadorian securities market regulations indicate that all the securities of public offering - including the issuance of obligations and therefore Bonds Green and Social - they must be registered in the Public Cadastre of the Market of Securities and traded on the stock market, that is, through the stock exchanges. values.

The Quito Stock Exchange is the only exchange in the country that has standards for this type of emission and is an observer member of the ICMA Green Bond Principles.

The Stock Exchange provides the infrastructure for trading the issues and establishes the regulations that securities houses and issuers must follow through self-regulation, both for the registration of financial instruments, as for your negotiation.

For the registration of Green and Social Bonds, the Quito Stock Exchange will request the information provided by the issuers of the bond issues traditional, and the constancy of the Verification that the voucher is “Green, Social o Sustainable ”under the protection of international guidelines and standards own of the Stock Exchange.

The Quito Stock Exchange has extensive experience in the development of Green or Social Bonds to be issued in the Ecuadorian market, working on the feasibility of this instrument since mid-2017, and maintaining various meetings and alliances with multilateral organizations that have supported this initiative, such as the Bank's International Finance Corporation (IFC) World Bank, the Inter-American Development Bank (IDB), among others.

In February 2018, the Quito Stock Exchange officially launched the Green Bonds product together with Casas de Valores and the IDB, and subsequently has held meetings with potential corporate and financial issuers with the in order to offer them training and assistance to become the first Issuers of Green Bonds of Ecuador. [8]

In December 2019 the Superintendency of Companies, Securities and Insurance authorized the first Issuance of Long-Term Obligations - Green Bonds of the Ecuador, from the issuer Banco Pichincha CA, for an amount of up to USD 250 million to 5 years term. The destination of the proceeds from the issuance will be destined to the financing of operations and / or projects with benefits environmental and climate such as: eligible energy subprojects renewable, eligible energy efficiency subprojects, manufacturers of renewable energy technology and energy efficiency equipment, subproject eligible water efficiency, eligible green buildings subproject, subproject eligible for financing electric vehicles, hybrids and flexi-fuel cars, eligible sustainable agriculture subproject and more

[8] https://www.bolsadequito.com/index.php/component/content/article/79-noticias-blog/blog/226-bonos-verdes?Itemid=437

activities that have technical support to provide evaluation and information to define your eligibility.

The Climate Bonds Initiative in one of its publications states that “The Ecuador's addition to the list of countries with green bond markets is a positive fact: what happens through a national bank is even more positive. Financial firms have an enhanced ability to increase the visibility of green investment while financing projects in various sectors. "

What other actors participate in this process?

to. Superintendency of Companies, Securities and Insurance

The Superintendency of Companies, Securities and Insurance is the body technical, with administrative and economic autonomy, which monitors and controls the organization, activities, operation, dissolution and liquidation of the companies and other entities in the circumstances and conditions established by the law.

Its role is essential, since it plays the role of authorizing the offers of Green and Social Bonds, after having concluded the entire process of structuring by brokerage houses.[9]

b. Centralized Securities Clearing and Settlement Deposits

The Centralized Securities Clearing and Settlement Deposits are the public institutions or anonymous companies, whose operation is authorized by the Superintendency of Companies, Securities and Insurance, in charge of receiving in deposits the values registered in the Public Cadastre of the Stock Market, keep the securities in custody and take care of their conservation, provide settlement and transfer registration services and operate as a securities clearing house.

In Ecuador there are currently two Centralized Deposits of Clearing and Settlement of Securities: one of a public nature, the "Deposit Centralized Clearing and Settlement of Securities of the Central Bank of Ecuador "(DCV-BCE); and, one of a private nature, "Centralized Deposit of Compensation and Liquidation of Valores SA "(DECEVALE).

[9] Art. 60 Organic Monetary and Financial Code, Book II (Securities Market Law)

SAW. GREEN AND SOCIAL BONDS ISSUANCE PROCESS

Framework prior to the issuance of Green Bonds

The future issuer must identify and define the activities or projects to which the resources generated by the placement of the Bond will be allocated Green. Will consider the criteria of the Green and Social Bond Principles and / or Climate Bonds Standard.

Process for the issuance of Green Bonds

Structuring process

The structuring process of a green bond or a social bond comprises the following steps:

Informative Obligations

The inscription in the Public Cadastre of the Stock Market and in the Stock Exchange generates to issuers information obligations towards the market, that is, the obligation to provide both registration maintenance information, as well as Notifying any relevant fact or event.

The following table details the maintenance information that the Green and Social Bond issuers must provide, both to the Superintendency of Securities and Insurance Companies and the Stock Market:

VII. FREQUENT QUESTIONS

Are Green Bonds the same as Carbon Bonds?

No, Green Bonds are debt instruments that are issued in the market of values. Carbon Bonds are instruments that represent rights to pollute by emitting a ton of carbon dioxide, and are emitted by companies that reduce their carbon footprint. The Bonds of Carbon is not traded on the Quito Stock Exchange.

From what and to what amount can I finance myself through issuance of Green or Social Bonds?

The amounts depend on the financing of the projects that the company required, there are no minimums or maximums; however, you should consider up to 80% of its assets free of liens and the guarantees of the case.

Do I have any kind of label in the local stock market special for contributing positively to climate change?

Issuers that issue Green Bonds will be on the Green List of the Quito Stock Exchange.

Who insures the debt of a Green or Social Bond?

The same issuer with its accountability and the different revisions to the which is subject.

What additional costs does the Green or Social Bond have, compared to ordinary corporate bond costs?

The only additional cost is that of the verification issued by the entity specialized that will verify the use and destination of the resources in the projects green or social.

If I need more information, who do I contact?

If you require more information about this type of product, please contact the Quito Stock Exchange to the following email address:
comercial@bolsadequito.com

VIII. CONTACT POINT

@BVQSA Stock Exchange Quito @valuesbvq @blackbags

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