



Sustainability or ESG Bonds

- How do companies benefit by issuing green bonds

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Agenda

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- 2. Types of ESG bonds**
- 3. Global Overview**
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Introduction



Green investing refers to investing activities aligned with environmentally friendly business practices and the conservation of natural resources.

ESG bonds are a type of green debt security in which investors with the moral obligation to support environment-friendly projects may invest in.

Globally, the issuance of green bonds started in 2007 and was pioneered by a handful of development banks.

Supranational organizations such as European Investment Bank and World Bank along with few governments undertook issuances between 2007-2012.

Types of ESG bonds

Green Bonds

Type of bond instruments where proceeds or an equivalent amount is exclusively applied to finance or re-finance new and/or existing eligible *Green Projects*.



Sustainability Bonds

Type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance a combination of *both Green and Social Projects*.



Social Bonds

Type of bond instruments where proceeds or an equivalent amount is exclusively applied to finance or re-finance new and/or existing eligible *Social Projects*.



Sustainability-linked bonds

Type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ ESG objectives.





Green Bond Principles

Use of proceeds



Eligible Green Project categories:
Renewable energy, energy efficiency, pollution prevention and control, environmentally sustainable management of natural resources and land use, clean transportation, etc.

Process for project evaluation and selection



Issuer shall clearly communicate to investors:

- Environmental sustainability objectives;
- Process to determine eligibility of projects as Green Projects;
- Information on processes to identify and manage social and environmental risks associated with projects.

Management of proceeds



Net proceeds of green bonds/ an equivalent amount:

- Should be credited to a sub-account or tracked by the issuer in an appropriate manner;
- Balance shall periodically adjusted to match allocations to eligible Green Projects made during tenure of the bonds
- External audit of management of proceeds recommended

Reporting



Information on the use of proceeds:

- To be reviewed annually until fully allocated and on a timely basis until fully allocated;
- Annual report to contain list of projects, brief description, amount allocated and expected impact.

Social Bond Principles



Use of proceeds

Eligible Social Project categories:
Affordable basic infrastructure, access to essential services, affordable housing, employment generation, food security, socio-economic advancement, etc of target population.

Process for project evaluation and selection

Issuer shall clearly communicate to investors:

- Social objectives;
- Process to determine eligibility of projects as Social Projects;
- Information on processes to identify and manage social and environmental risks associated with projects.

Management of proceeds

Net proceeds of green bonds/ an equivalent amount:

- Should be credited to a sub-account or tracked by the issuer in an appropriate manner;
- Balance shall periodically adjusted to match allocations to eligible Green Projects made during tenure of the bonds
- External audit of management of proceeds recommended

Reporting

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Sustainability Bond Principles

Aligned with the 4 components of GBP & SBP as applicable to underlying Green Projects/Social Projects

Classification as Green/Social/Sustainable Project to be determined based on primary objectives of the issuer

The bonds will not be considered fungible in case they are not aligned with the 4 components of the Principles



Sustainability-linked Bond Principles

Selection of Key Performance Indicators (KPI)

- Relevant, core and material to issuer's overall business
- Measurable or quantifiable
- Externally verifiable

Calibration of Sustainability Performance Targets (SPTs)

- Should represent material improvement in KPI
- Be consistent with the issuer's overall ESG strategy
- Be determined on a predefined timeline

Bond characteristics

- Varying structural and financial characteristics
- Variation to be commensurate and meaningful to issuer's original bond features

Reporting

- Up-to-date information on performance of KPIs
- Verification assurance report relating to SPTs
- Other information regarding the issuer's ESG strategy

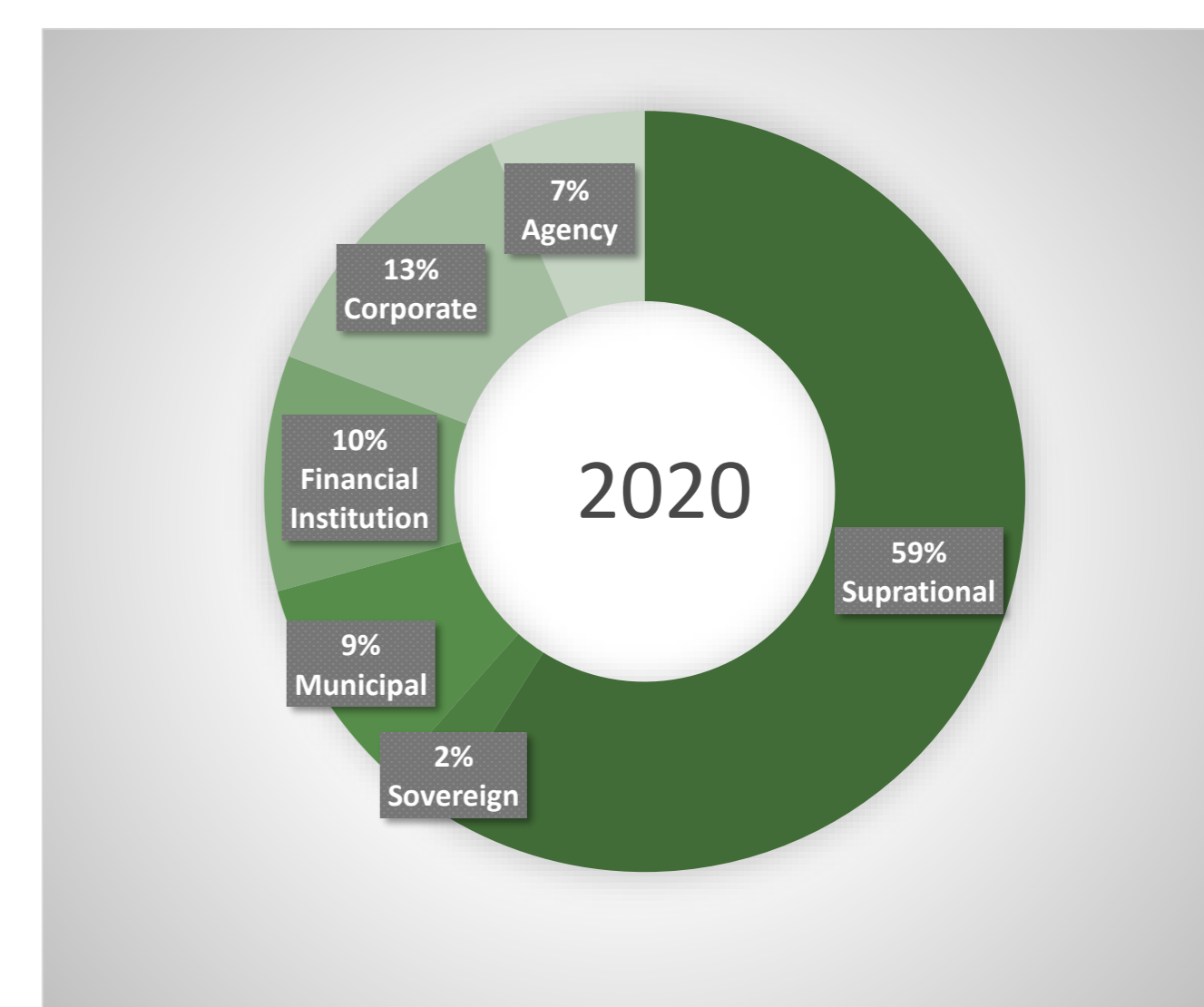
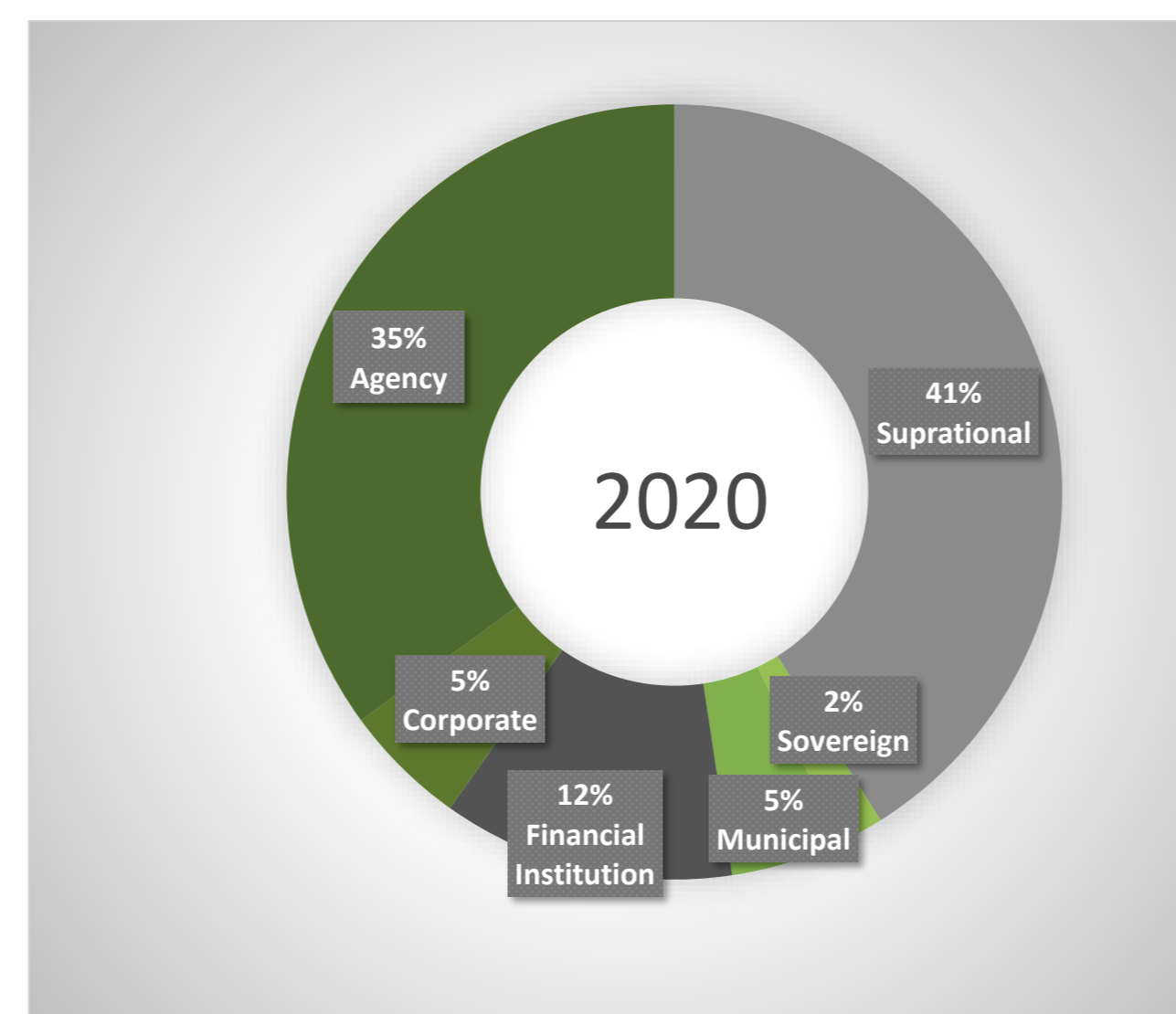
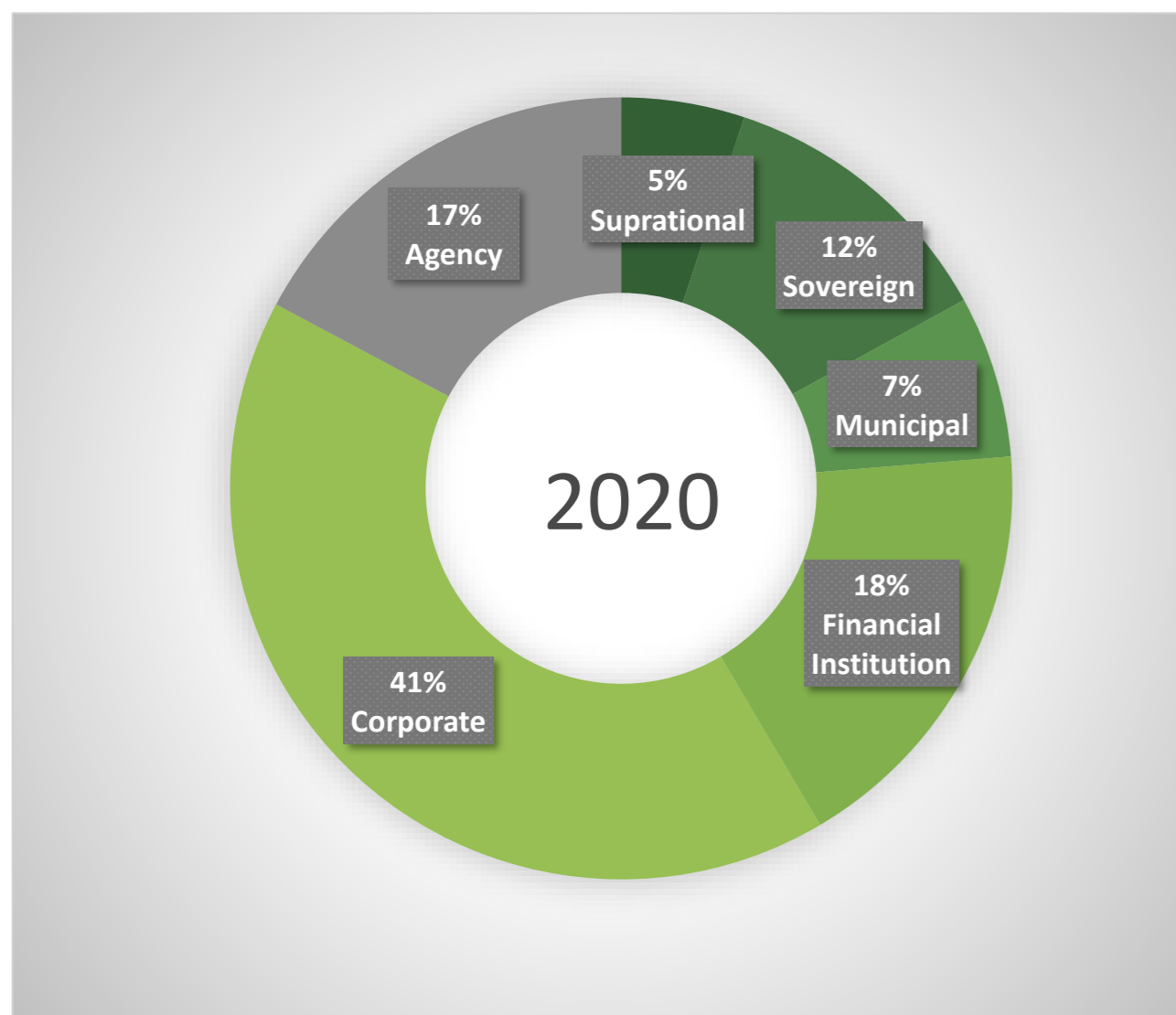
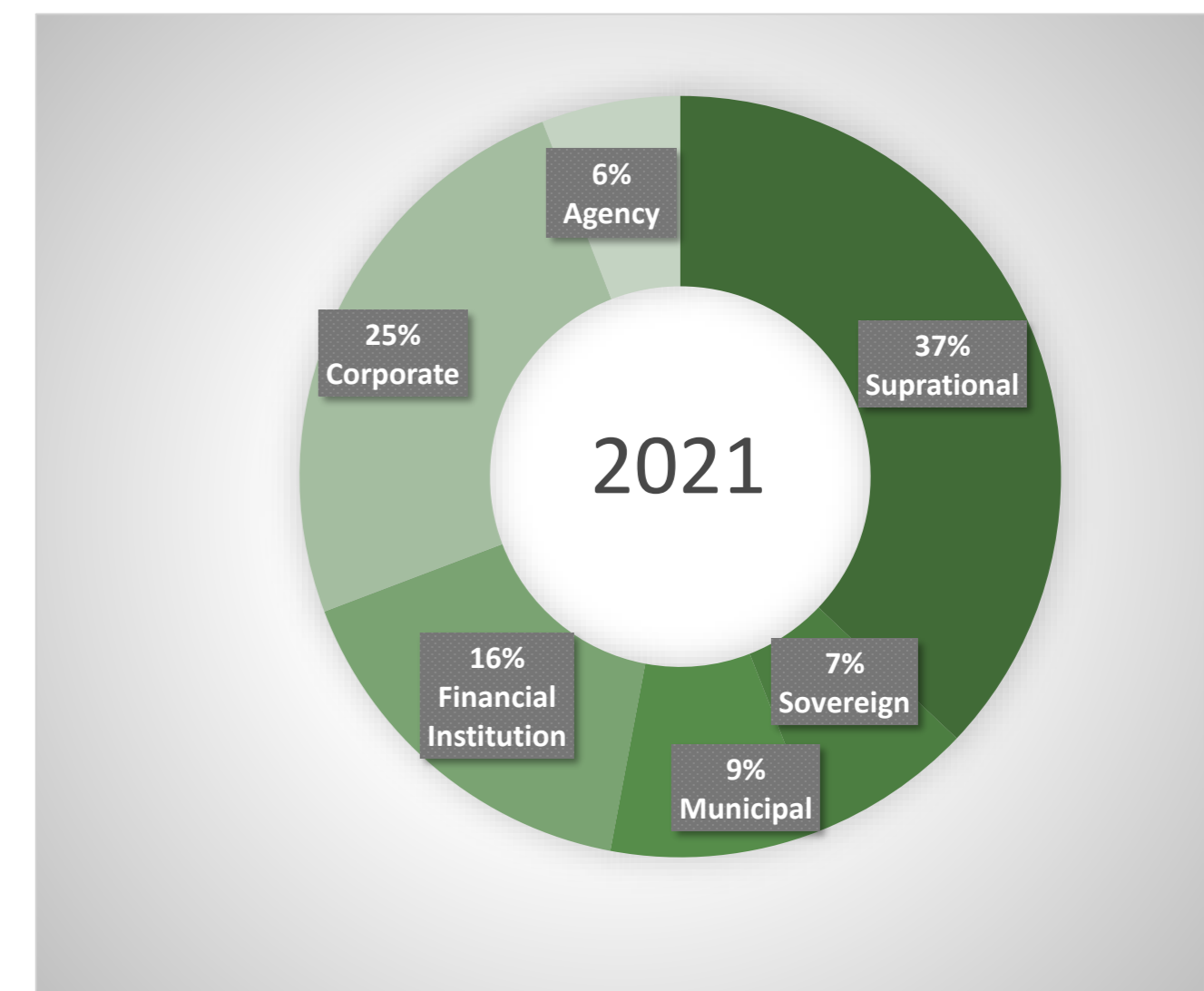
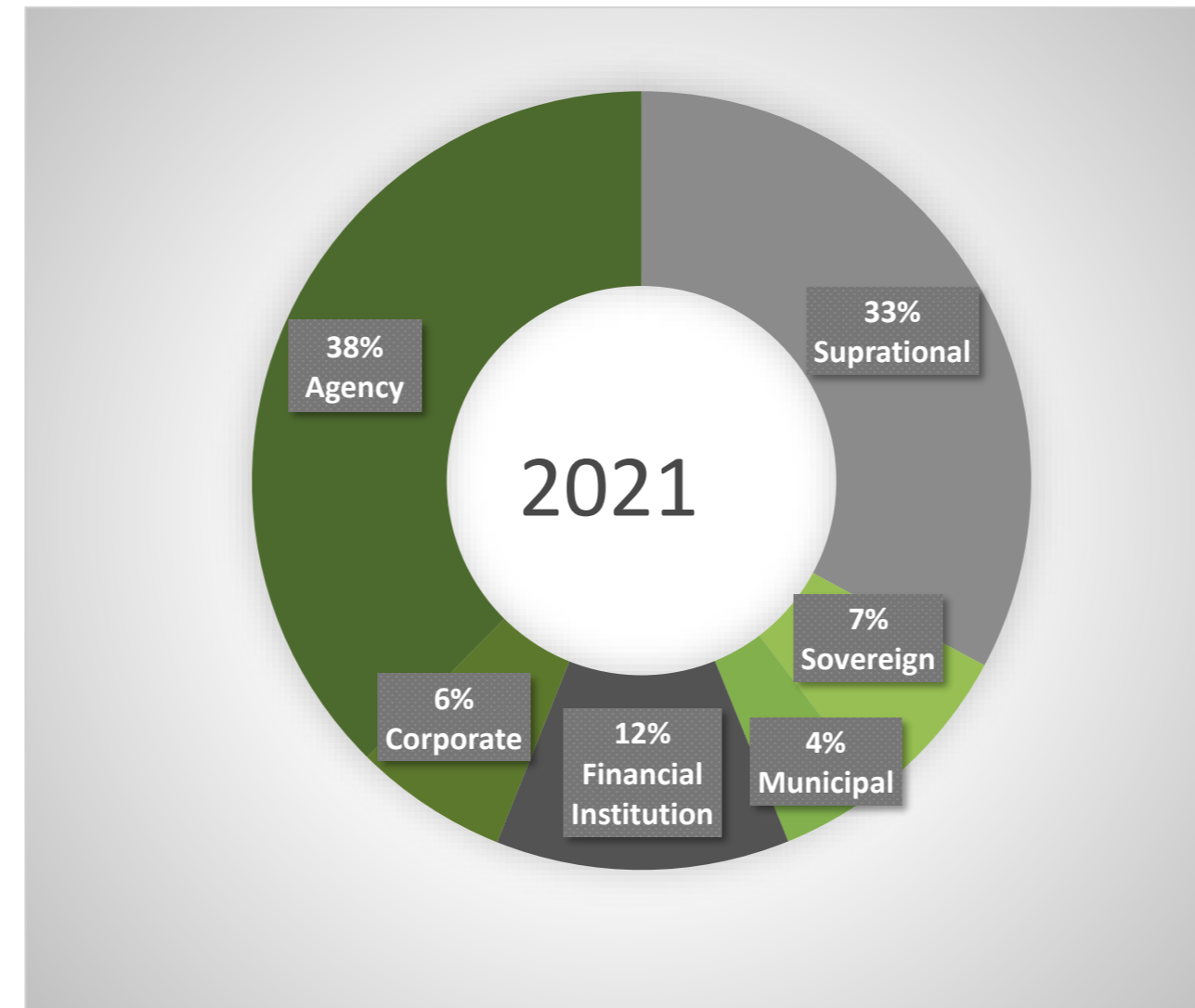
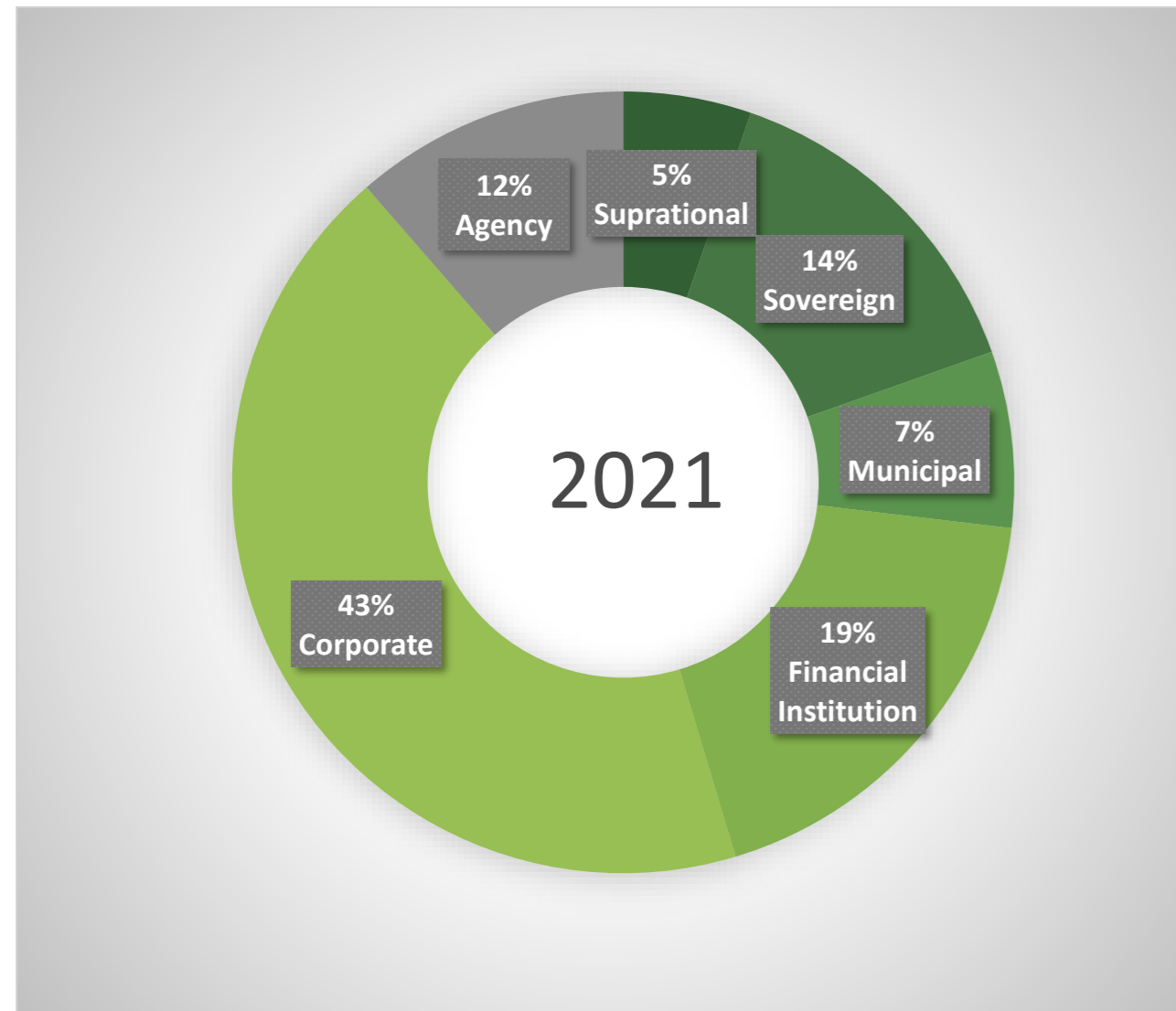
Verification

- Issuer to seek independent and external verification
- By auditor or environment consultant
- To be made publicly available

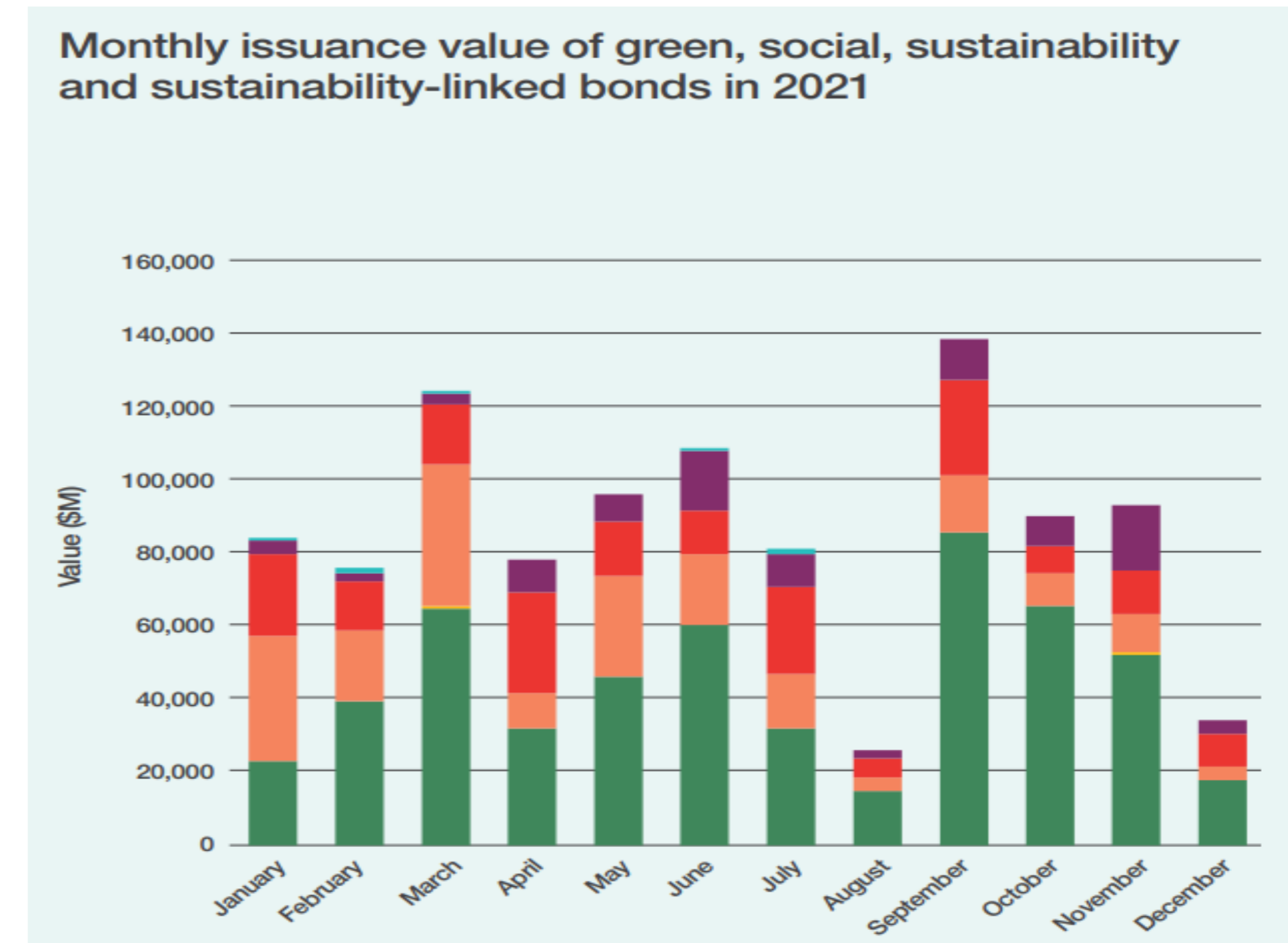
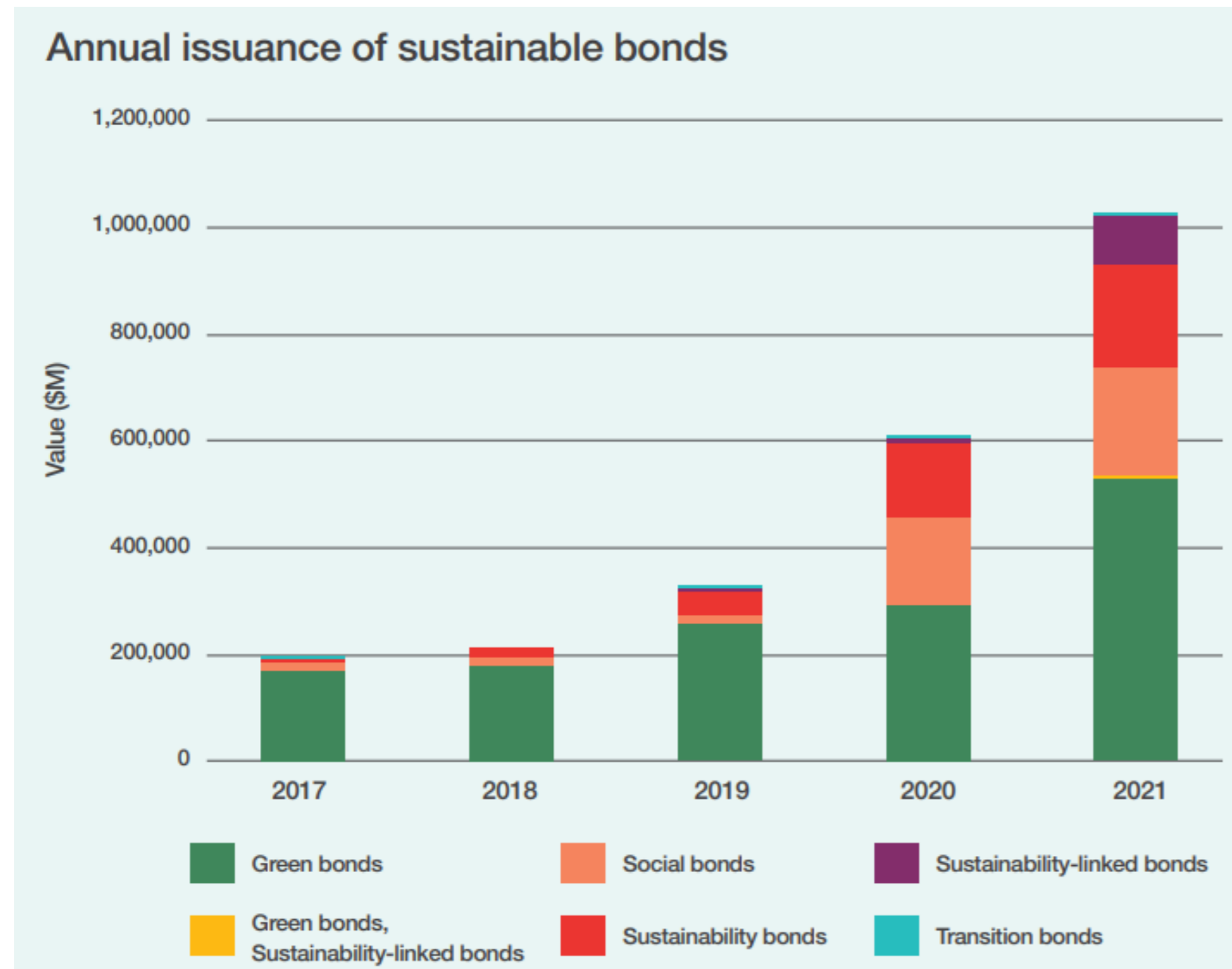
Green Bonds

Social Bonds

Sustainability Bonds



Global overview



Source: Sustainable Bonds Insight 2022

- Globally total issuance of green, social, sustainability and sustainability linked bonds (GSSS) reached USD600 billion in 2020;
- Green bonds represented 50% of the total issuances of green, social, sustainability and sustainability linked bonds globally (compared to 2018 when green bonds presented over 85% of total GSSS bond issuance);
- As a share of total bond issuance, green bonds in emerging markets (excluding the People’s Republic of China) constituted marginally 3.8% in 2020 compared with 3.4 % in developed markets.

Emergence of framework for ESG Bonds in India

SEBI Concept Paper on issuance of green bonds dated December 3, 2015

India's Intended Nationally Determined Contribution (INDC) – States targets for India's contribution towards climate improvement and following a low carbon path to progress.

- Impresses upon the need of financing needs for achieving the stated goals
- Preliminary estimate suggests that at least USD 2.5 trillion (at 2014-15 prices) will be required for meeting India's climate change actions between now and 2030.
- India has embarked upon an ambitious target of building 175 gigawatt of renewable energy capacity by 2022 which would require a massive estimated funding of USD 200 billion.

SEBI Meeting dated January 11, 2016

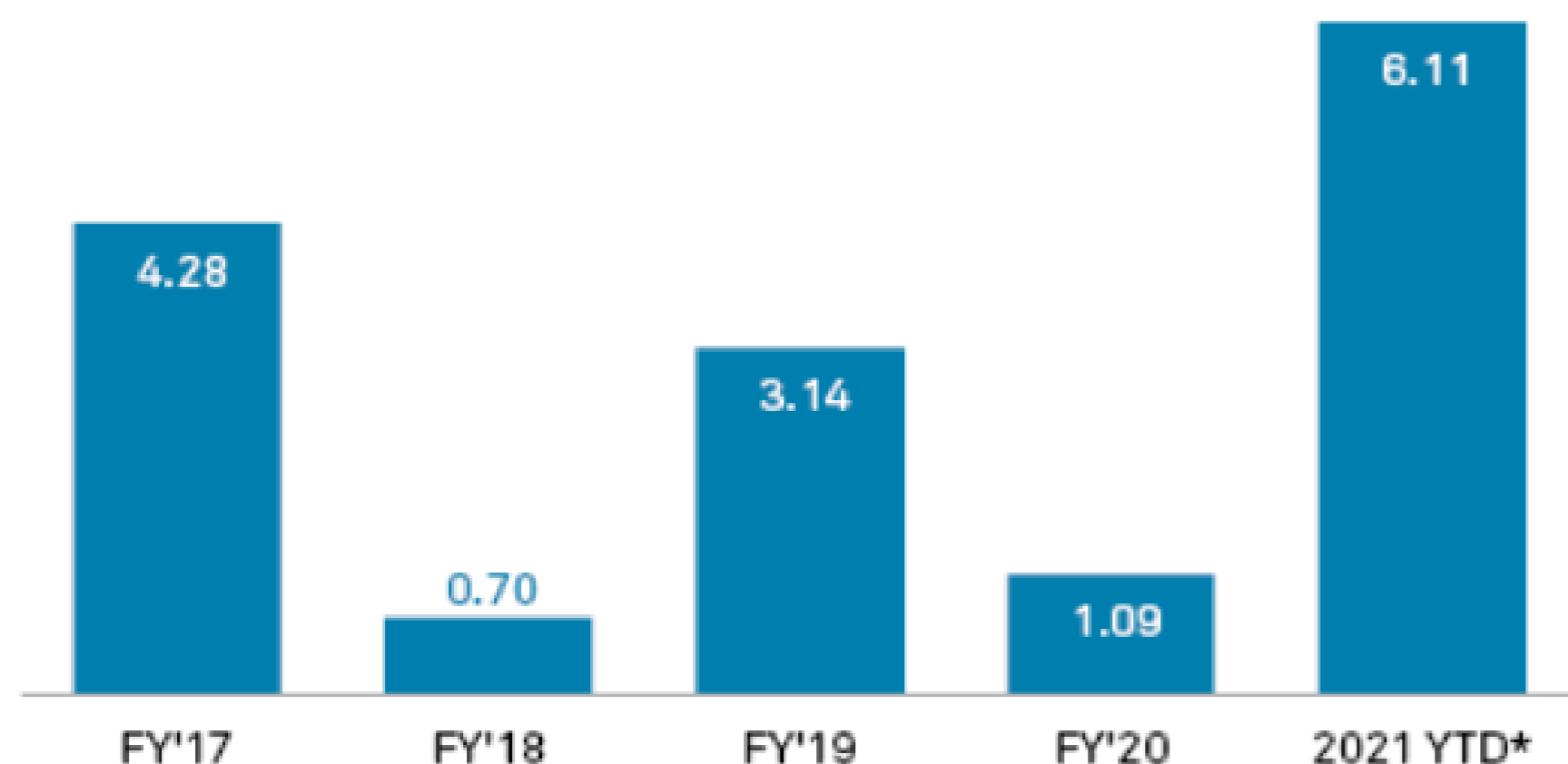
- Specific global pool of capital, which are earmarked towards investment in Green Ventures focusing primarily on environmental, social and governance (ESG) related aspects of the projects in which they intend to invest.
- Access to such investors may be tapped by issuance of green bonds

Following structure was proposed:

- Issuance and listing to be governed under SEBI (Issue and Listing of Debt Securities) Regulations, 2008
- Optional requirement of independent third party reviewer/certifier/validator, for reviewing/certifying/validating the pre-issuance and post-issuance process;
- Escrow account not mandatory;
- Issuer to provide the details of the system/procedures to be employed for tracking the proceeds of the issue including the investments made and/or investments earmarked for eligible projects;
- Issuer to make disclosures including use of proceeds, list of projects to which Green Bond proceeds have been allocated etc. in the annual report/periodical filings made to the Stock Exchanges.

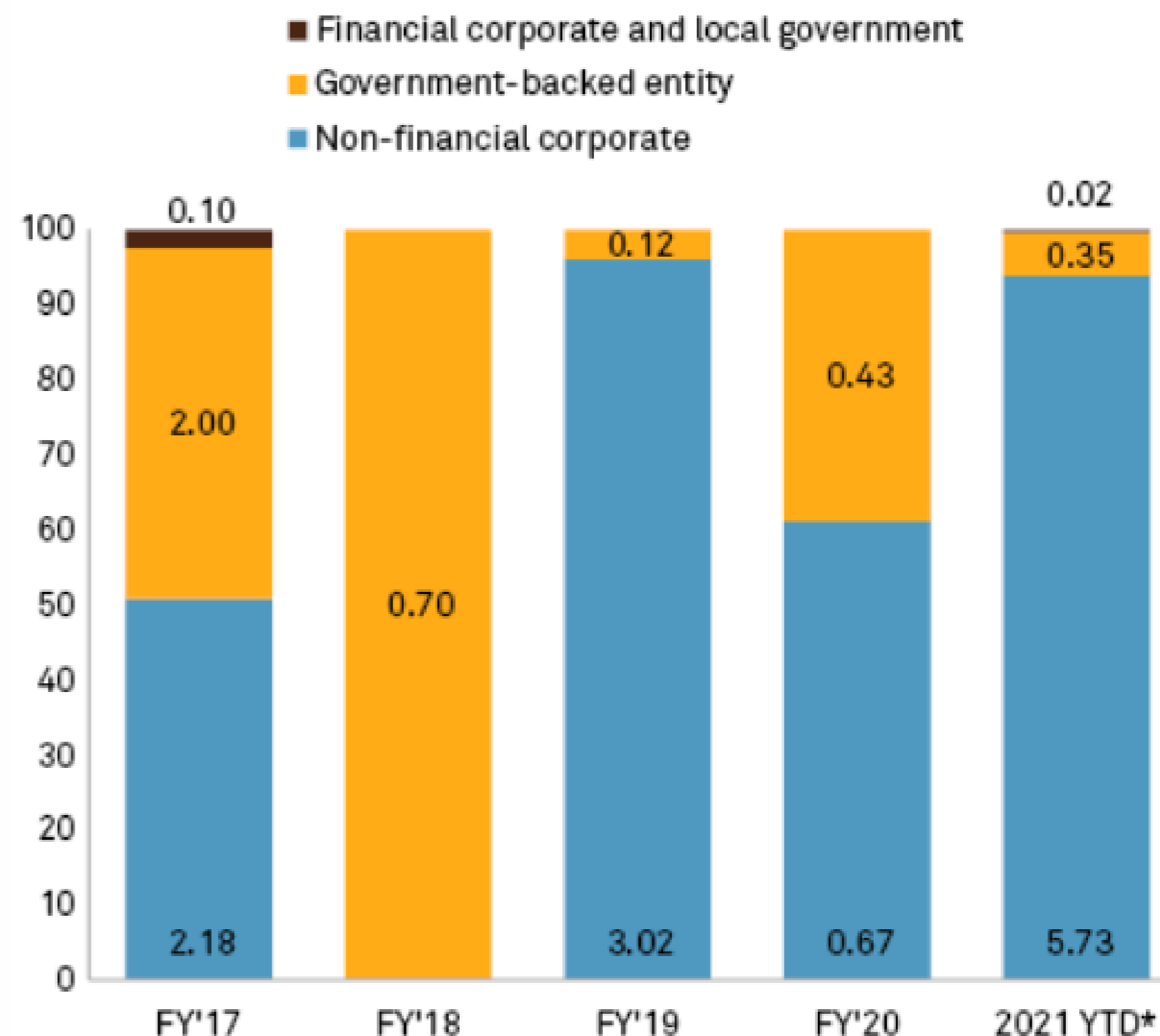
Emergence of framework for ESG Bonds in India

Volume of Indian green bond issuance (US\$B)



Data compiled Nov. 30, 2021.
 Green bonds are limited to those for which at least 95% of proceeds are designated for green projects aligned with the Climate Bonds Taxonomy.
 * Represents data up to Nov. 28, 2021.
 Source: Climate Bonds Initiative

Indian green bonds by issuer type (%)



Data compiled Nov. 29, 2021.
 Green bonds are limited to those for which at least 95% of proceeds are designated for green projects aligned with the Climate Bonds Taxonomy.
 Figures represented inside bars are in billions of U.S. dollars.
 * Represents data up to Nov. 28, 2021.
 Source: Climate Bonds Initiative

Recent Domestic Green Issues

Issuer	Opening Date	Issue Amount	Coupon (%)
Ghaziabad Nagar Nigam	31-Mar-2021	150	8.1% PA
IREDA	29-Mar-2017	500	8.05% PA
IREDA	24-Mar-2017	200	8.12% PA
Yes Bank	29-Dec-2016	330	7.62% PA
Hero Wind Energy	09-Aug-2016	120	Zero Coupon*
ReNew Power Ventures	01-Aug-2016	500	10.4% PA

Fig in ₹ cr; *Zero coupon debentures

Source: primedatabase.com

Details of terms of issuances in India

	<u>Yes Bank</u>	<u>Ghaziabad Nagar Nigam</u>	<u>Vector Green Energy</u>
Date of issuance	December 29, 2016	March 31, 2021	June 28, 2021
Quantum of issue	Rs. 330Cr (3300 bonds of FV Rs. 1L each)	Rs. 150Cr (1500 bonds of FV Rs. 10L each)	Rs. 581Cr (5810 bonds of FV Rs. 10L each)
Coupon (%)	7.62% p.a.	8.10% p.a.	6.49% p.a.
Tenure	7 years	10 years	3 years
Objects of the issue	<ul style="list-style-type: none"> Installation or construction by a corporate/ small and medium sized entity and aimed at investing into fixed assets that are designed to produce electricity, heat, cooling, and any other form of energy that displaces fossil fuel use by utilizing renewable energy resources 	Funding project of Tertiary Treatment Plant of 40 MLD net output capacity at Indirapuram to generate industrial grade water under GNN for reuse of treated waste water from existing 56 MLD Indirapuram STP in Ghaziabad.	<ul style="list-style-type: none"> To refinance existing lenders to operational solar PV projects (including any prepayment charges) and To invest in development of green-field solar PV projects
Eligible issuers	QIBs and individual investors to whom offer document has been circulated	Banks, FIs, Insurance companies, Mutual funds, NBFCs, corporate investors, any other eligible investor specifically approached	QIBs and any other person to whom offer document has been circulated
Details of project evaluation & selection	Evaluation Committee to be set up to evaluate each short-listed project basis Project Evaluation criterion	Proceeds to be utilized against identified Eligible Green Project as certified by the Bond Issue Committee	ESG team undertakes due diligence, which is assessed by Investment Committee
Management of proceeds	Audit assurance services to be sought in line with Green Bond Principles	<ul style="list-style-type: none"> Separate bank account to be opened Report of Water Works Department to be verified by a CA 	<ul style="list-style-type: none"> Separate bank account to be opened Audit assurance services to be sought in line with Green Bond Principles

Indian legal framework for green debt

A. SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021

Definition of green debt security [Reg. 2(1)(q)]

- Debt security issued for raising funds that are to be utilised for project(s) and/or asset(s) falling under any of the prescribed categories, subject to the conditions as may be specified by the Board from time to time.
- Categories include: Renewable and sustainable energy, clean transportation, sustainable water management, climate change adaptation, etc.

Public issuance of green debt securities [Reg. 26]

- An issuer desirous of issuing and listing of green debt securities shall comply with the conditions as may be specified by SEBI.

B. SEBI Operational Circular for issue and listing of Non-convertible Securities dated August 10, 2021

Additional disclosures in Offer Document

- **Statement on environmental objectives** of the issue;
- **Brief details of decision-making process** followed/ proposed for determining the eligibility of project(s) and/ or asset(s), for which the proceeds are being raised;
- **Details of the system/ procedures to be employed** for tracking the deployment of the proceeds of the issue;
- **Details of the project(s) and/ or asset(s) or areas** where the issuer, proposes to utilise the proceeds of the issue of green debt securities;
- **Disclosure of appointment of independent third party reviewer/ certifier**, for reviewing/ certifying the processes including project evaluation and selection criteria, project categories eligible for financing by green debt securities, etc, if any.

Continuous disclosures

- To be disclosed along with its annual report and financial results:
- **Utilisation of the proceeds** of the issue, as per the tracking done by the issuer using the internal process as disclosed in offer document
- **Details of unutilized proceeds**
- **List of project(s) and/ or asset(s)** to which proceeds of the Green Debt Securities have been allocated/ invested including a brief description of such project(s) and/ or asset(s) and the amounts disbursed
- **Qualitative performance indicators** and, where feasible, quantitative performance measures of the environmental impact of the project(s) and/ or asset(s).
- **Methods and the key underlying assumptions** used in preparation of the performance indicators and metrics

Responsibilities of issuer

- To maintain a decision-making process which it uses to determine the continuing eligibility of the project(s) and/ or asset(s);
- To ensure that all project(s) and/or asset(s) funded by the proceeds of green debt securities, meet the documented objectives of green debt securities;
- To utilise the proceeds only for the stated purpose, as disclosed in the offer document

1. Eligibility requirements

Alignment with recognised frameworks



- International Capital Markets Association Principles
- Climate Bonds Standards
- ASEAN Standards
- European Union Standards/Taxonomy

Conditions for appointment of an external reviewer



- Reviewer to be independent of the issuer, its directors, senior management, KMP and advisors
- Avoidance of conflict of interest w.r.t. remuneration
- Reviewer to have sufficient expertise in assessing ESG debt securities

Type of external review



- Second party opinion
- Verification
- Certification
- Scoring/Rating

2. Disclosures in offer document/ information memorandum

Other than SLBs

- Statement of ESG objectives
- Details of decision-making process
- Details of projects/ assets
- Details of systems/procedures for tracking deployment of proceeds

SLBs

- Rationale for issuance of SLBs and consistency with ESG strategy
- Adherence to pre and post issuance obligations prescribed under international standards

3. Continuous disclosure – To be given on an annual basis until full allocation of proceeds raised

Other than SLBs

- Utilisation of proceeds
- List of projects to which proceeds have been allocated
- Qualitative performance indicators and where feasible quantitative performance measures of expected ESG impact

SLBs

- Up-to-date information on performance of selected KPIs;
- Information enabling investors to monitor the level of ambition of SPTs
- Verification report by an independent external reviewer outlining performance against SPTs;
- Verification report by an independent external reviewer

Greenwashing

Meaning

- It is the process of conveying a false impression or providing misleading information about how a company's products are more environmentally sound. Greenwashing is considered an unsubstantiated claim to deceive consumers into believing that a company's products are environmentally friendly.

Impact

- The same contributes to consumer scepticism of all green claims and diminishes the power of the consumer to drive companies toward greener manufacturing processes and business operations.

Examples:

- a. A plastic package containing a new shower curtain is labeled “recyclable.” It is not clear whether the package or the shower curtain is recyclable.

In either case, the label is deceptive if any part of the package or its contents, other than minor components, cannot be recycled.

- b. An area rug is labeled “50% more recycled content than before.” The manufacturer increased the recycled content from 2% to 3%. Although technically true, the message conveys the false impression that the rug contains a significant amount of recycled fiber.
- c. A firm may emphasize that a product is produced (or packaged) using recycled materials, however, they neglect to mention that it was sourced from a supplier with a history or coercive labor practices or humanitarian issues.

Benefits of issuing green bonds

For issuers

4

Role as corporate citizens

- Proceeds are utilized on sourcing of renewable energy, pollution reduction, climate change initiatives

Contribute to demonstrating role of issuers as responsible corporate citizens

3

Potential for pricing advantage

- Attracts wider investor base, thus better pricing
- Yield payment relatively lower

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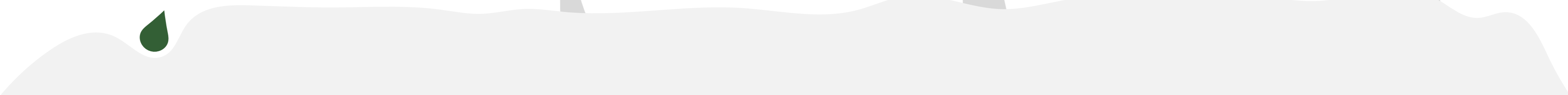
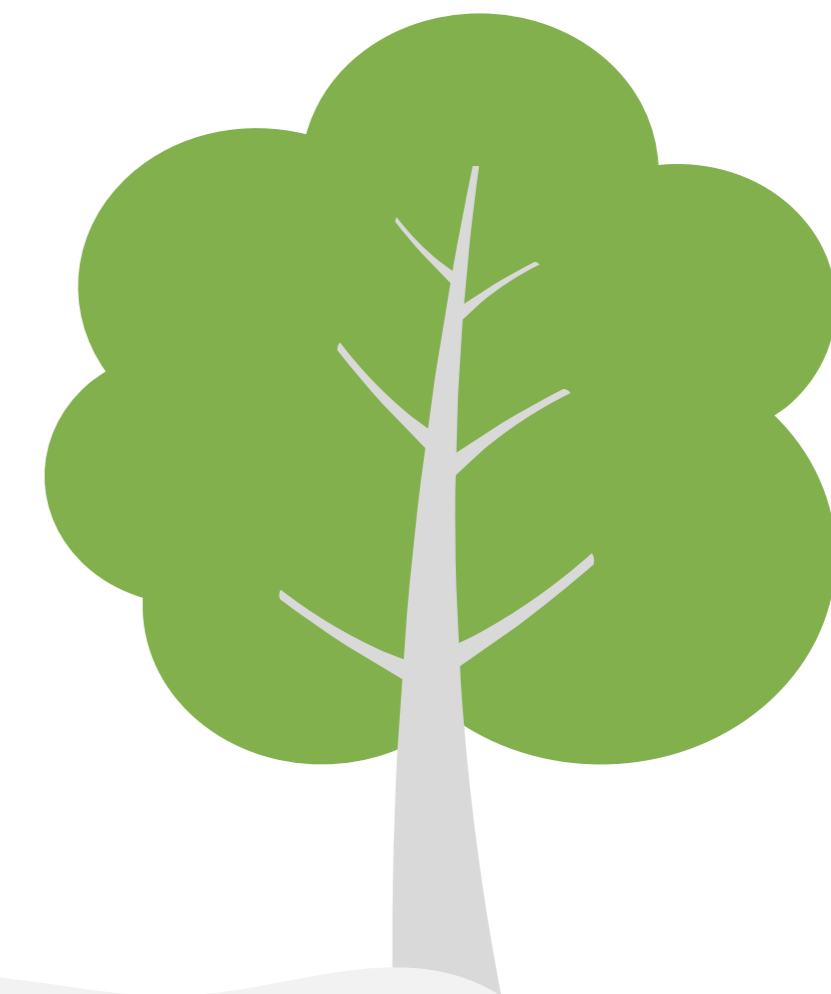
Investor Diversification

- Access to specific pool of global capital earmarked towards investment in Green Ventures
- Primary focus on ESG related aspects
- More impact oriented than yield based

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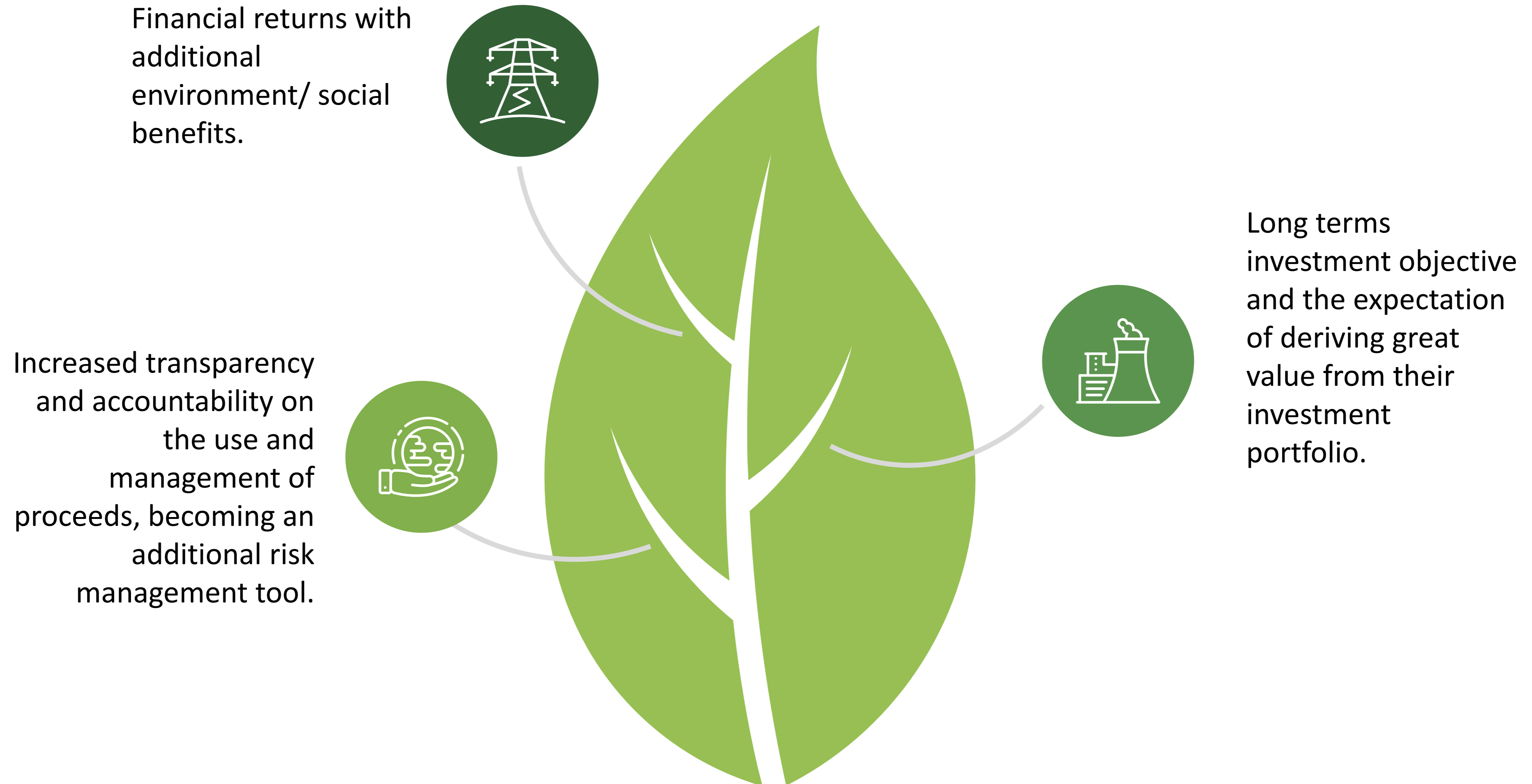
Positive public Relations

- Enhances issuer's reputation
- Displays issuer's commitment towards development and sustainability
- Generates positive publicity
- Seen as ethical companies



Benefits of issuing green financing

For investors



Thankyou!