

## ch-14 PART-3

synopsis.



Sustainable Finance.

- Green Debt securities.
- Disclosure requirement
  - Initial Disclosure
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- Appointment of third party reviewer
- Responsibility of the issuer
- Green Bond and Greenwashing
- Transition Bonds
- Municipal Bonds
- Info. Database by SEBI - QR code

PART-C - sustainable finance.



Green Debt securities.



→ Means a debt security issued for raising funds subject to the conditions as may be specified by SEBI from time to time.



→ utilised for project falling under any of the following categories:

- renewable & sustainable energy
- clean transportation incl. mass / public transportation.
- Energy efficiency incl. efficient and green buildings
- sustainable waste mgmt incl. recycling, waste to energy
- sustainable Land use incl. sustainable forestry
- biodiversity conservation
- Blue Bonds - fund raised for sustainable water management
- yellow Bonds - fund raised for solar energy generation
- Transition Bonds - fund raised for transitioning to a more sustainable form of org<sup>n</sup> or?

→ India's updated Nationally Determined contributors (NDCs). India has pledged to -

- Reduce emission intensity of GDP by 33-35% by 2030
- increase share of non fossil fuel - based electricity to 40% by 2030
- increase forest cover to absorb 2.5 to 3 billion tonnes of CO<sub>2</sub> by 2030

<u>Initial Disclosures.</u>	<u>continuous Disclosure Req.</u>
<ul style="list-style-type: none"><li>→ state environmental objective of the green debt issue.</li><li>→ Explain the process to identify eligible green project / assets.</li><li>→ The criteria making the project eligible for using the green debt sec. proceeds.</li><li>→ Details of taxonomies / std. used.</li><li>→ align the objectives with India's intended nationally determined contributors.</li></ul>	<ul style="list-style-type: none"><li>• <u>Additional Disclosure along with Annual Report &amp; Fin. Results.</u></li><li>→ Issuer must report how the funds were used, based on the internal tracking mentioned in the offer doc. external auditor must verify the fund utilisation.</li><li>→ Details of unutilised proceeds, incl. temporary placement or use of unallocated amounts from each ISIN of green debt securities</li></ul>

- Details of the system / procedures for tracking how proceeds are deployed.
- Details of project / areas where the proceeds will be utilised.
- Give an estimated distribution of funds across project / assets raised thr<sup>y</sup> issuance of green debt security.
- Details of how unallocated / unutilized funds will be temporarily placed.
- Details related to perceived enviro. and social risk along with mitigh<sup>n</sup> plans.
- Appoint an independent third party reviewer to evaluate and certify eligibility and compliance.
  - ↓
  - applicable on comply or explain basis for a period of 2 years.

- Add<sup>n</sup> disclosure - Annual Report
- list of projects / assets to which proceeds of the green debt security have been allocated
- qualitative performance indicator and where feasible, quantitative performance measures of the environmental impact
- methods and the key underlying assumptions used in preparation of the performance indicator and matrices.
- Details of the deployment of the mitigation plan for the perceived social and environmental risk.
- Impact Reporting
- Disclosure of major element of Business Responsibility & sustainability Reporting. - principal 6 pertaining to environment

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Appointment of third party reviewer

Post issue mgmt of the use of proceeds from green debt sec.

Verification of the internal tracking and impact reporting.

→ said requirement of appointing third party reviewer is applicable on a comply or explain basis for a period of 2 years.

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Responsibilities of the issuer

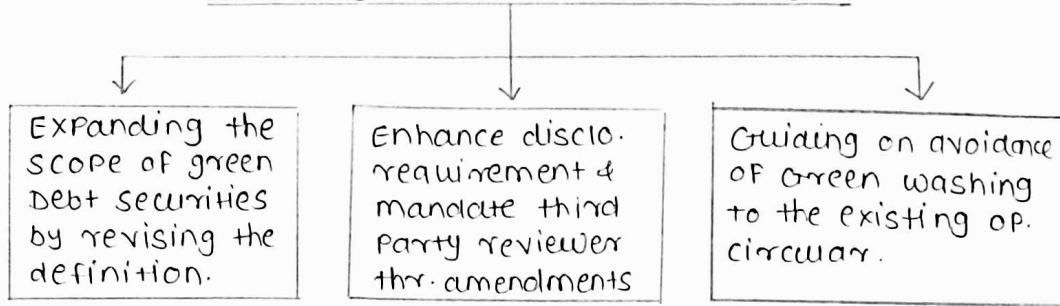
Maintain the decision making process which it uses to determine the continuing eligibility of the project.  
 ↓  
 incl. without limit<sup>n</sup> statement.

Ensure that all projects funded by the proceeds of green debt security

utilised the proceeds only for the stated purpose, as disclosed in the offer document.

Ensure compliance with the SEBI circulars

## Green Bond and Greenwashing



Meaning. - Greenwashing is making false, misleading, unsubstantiated or otherwise incomplete claim about the sustainability of a product, service or business operation.

Feb 3, 2023 - SEBI has also released a list of DOs and don'ts on Greenw.

- Issuer shall ensure the following to avoid its occurrence.

- |                           |   |
|---------------------------|---|
| <u>Monitor.</u>           | → while raising green funds, the issuer must continuously <u>monitor</u> whether its transition reducing environmental harm and supporting sustainable economy as stated in the offer document.   |
| <u>Not Utilized Fund</u>  | → <u>Fund raised through green bonds must not be used for purposes that do not qualify as green debt securities under NCS regulations.</u>  |
| <u>Disclosure</u>         | → In case any such instances ↑ come to light regarding green debt securities already issued, <u>the issuer must inform investors and if majority of deb. holder require redeem the securities early.</u>  |
| <u>Maintain Standards</u> | → It shall not use <u>misleading labels, hide trade off or cherry pick data from research to highlight green pract</u>  |
| <u>untrue claim</u>       | → shall <u>maintain highest standards</u> asso. with issue of green debt security.<br>→ shall <u>quantify negative externalities</u><br>→ shall not make <u>untrue claims giving false impression of certification by a third party entity.</u> |

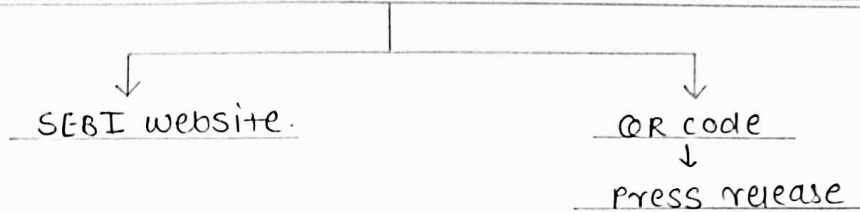
## Transition Bonds - Additional Req. - issuer

- sub category of Green Bond added later on in the def.
- For transitioning carbon intensive to carbon neutral
- SEBI additional disclosure.
  - GB-T
    - Denotation → offer doc. and all discl.
    - centralised database.
    - Depository database.
  - Transitional Plan.
    - overall strategy
    - Milestone & interim target.
    - Usage of tech.
    - Monitoring utilis<sup>n</sup> of Fund.
  - Any change in trans<sup>n</sup> Plan - intimate to SE + Reason.
- Annual Report : Brief Program.

## Municipal Bonds.

- SEBI has issued the SEBI (issue and listing of municipal debt securities) Reg. 2015.
- In accordance with this reg. municipal debt securities shall mean non-convertible debt securities which create, acknowledge indebtedness and incl. deb. bonds and such other securities.
- Municipal Bonds are a good alternative source of finance to fund projects undertaken by municipal corpo.
- In India the municipal debt market is in a nascent stage. Since 2017, 12 issues of municipal bonds have been made by ten municipal corpo. in the country raising almost 2000 cr.
- The fund raised have been used for various developmental projects like liquid waste management projects, water supply project, tertiary sewage treatment plants, residential projects.
- Issuer under this regulation may issue a green debt security if it falls within the definition of green debt security.

## Info. Database by SEBI on municipal Bonds.



### Information Database for municipal Bonds.

- statistics and reg, circulars, guidance note, FAQ
- checklist →
  - pre-listing requirements.
  - Sample Letters.
  - certificate from various intermediaries.
- Templates - Agreement between stakeholders.
- Indicative DD questionnaire for Merchant Banker.