



Markets Brief

DFSA Green Bond Best Practice Guidelines

Issue No. 18 – August 2018

Introduction

In this edition of Markets Brief, we provide issuers and market practitioners with information about the DFSA's approach to the listing of green bonds.

This Markets Brief sets out voluntary best practice guidelines for issuers seeking to fund environmental and social related projects and assets. The adoption of these guidelines should enhance transparency, consistency and uniformity of sustainable bond issuances which should also contribute to this new asset class, reduce due diligence costs and help investors make informed investment decisions.

In this regard, issuers and market practitioners should consider following an internationally accepted set of best practice standards designed for green bond issuers. For example, the International Capital Markets Association (ICMA)'s Green Bond Principles

(GBP) are internationally accepted and widely used for the development of national green bond guidelines or standards issued globally. There are many other bodies that have published similar guidelines and standards.

The adoption of these best practice guidelines should promote integrity in the development of the green bond market in the United Arab Emirates through guidelines that promote increased transparency, disclosure and reporting.

Purpose of this brief

Please note that the contents of this brief are not intended to be Guidance as contemplated by the Regulatory Law 2004 and the contents should neither be interpreted, nor relied upon, as Guidance. You should refer to the DFSA Rulebook for Guidance or contact the DFSA if you require individual guidance.

Technical explanations given in this brief are for illustrative purposes and should not be considered or relied upon as legal advice. Independent legal advice should be obtained if you are unsure about any aspect of the DFSA Markets regime which may apply to you.

All issuers are reminded to ensure that information disclosed in a Prospectus complies with legal requirements under DFSA administered legislation. This includes responsibility for ensuring that any information disclosed in a Prospectus is not misleading or deceptive.

Defined terms are identified in this brief by the capitalisation of the initial letter of a word or each word in a phrase and are defined in the Glossary Module of the DFSA Rulebook.

What are green bonds?

Green bonds (or green Sukuk) are debt securities where the proceeds of the issuance are utilised exclusively to fund green projects or assets that generate climate or other environmental benefits. Different types of green bonds exist in the market.

The classification of a use of proceeds bond as a green bond should be determined by the issuer based on its primary objective for the underlying projects.

Bonds that mix green and social projects are generally referred to as sustainable bonds.

Best Practice Guidelines

Best practice guidelines may vary globally but should, at a minimum, cover the following areas:

1. Use of proceeds

The proceeds raised through the issuance of green (social or sustainable) bonds must go towards projects that deliver a clear benefit to the environment or social welfare.

The DFSA does not take a position on what may be considered 'green' and eligible for investors. There are many institutions that provide independent analysis, advice and guidance on the quality of different green solutions and environmental practices.

2. Process for project evaluation and selection

The issuer of a green bond should clearly communicate to investors:

- the environmental sustainability objectives;
- the process by which the issuer determines how the projects fit an eligible green project category;
- the related eligibility criteria including any other process applied to manage potential material environmental and social risks associated with the projects.

The DFSA encourages a high level of transparency. An issuer's process for project evaluation and selection should be supplemented by an external review (see External Review).

3. Management of proceeds

The net proceeds of the green bond, or an amount equal to these net proceeds, should be tracked by the issuer in an appropriate manner

and attested by the issuer in a formal internal process linked to the issuer's lending and investment operations for green projects.

So long as the green bond is outstanding, the balance of the tracked net proceeds should be periodically adjusted to match allocations to eligible green projects made during that period.

The DFSA encourages a high level of transparency. An issuer's management of proceeds should be supplemented by the use of an auditor, or other third party, to verify the internal tracking method and the allocation of funds from the green bond proceeds (see External Review).

4. Reporting

Issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and on a timely basis in case of material developments. The annual report should include a list of the projects to which green bond proceeds have been allocated, as well as a brief description of the projects and the amounts allocated, and their expected impact.

External Review

In connection with the issuance of a green bond, issuers should appoint (an) external review provider(s) to confirm the alignment of their bond with the best practice standards adopted. There are a variety of ways for issuers to obtain such outside input to their green bond process and there are several levels and types of review that can be provided to the market.

Independent external reviews may vary in scope and may address a green bond issue, the underlying assets and/or procedures. They are broadly grouped into the following types, with some providers offering more than one type of service, either separately or combined:

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

Relevant rules

For detailed information on what constitutes offers of debt securities and how to go about listing the securities in the DIFC generally, see Markets Briefs 2 and 3 available on the DFSA's website.

Issuers may include the external review reports as a third party expert's report under Markets Rules (MKT) Rule 2.10.2. This Rule contains requirements on seeking consent from the experts to include their findings in the Prospectus.

Further information

The DFSA Markets team can be reached on markets@dfsa.ae or 04 362 1585. The DFSA will not advise a particular course of action or provide (legal) advice, but it is prudent to keep the DFSA informed of ongoing developments in relation to the Reporting Entity.

Arabic edition

Every Markets Brief is produced in both English and Arabic and is available on the DFSA website.

Contact us

Visit the DFSA website www.dfsa.ae for:

- other editions of the Markets Brief;
- access to DFSA-administered legislation and the DFSA Rulebook, including a full text of the Markets Law 2012 and Markets Rules; and
- the Code of Market Conduct (in the Sourcebook Modules part of the DFSA website).

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Feedback

We appreciate your feedback and welcome any suggestions that you may have. Please email us at markets@dfsa.ae