



Listing of Green Bonds in Luxembourg

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Luxembourg, a trailblazer in the green bond industry

Green bonds

Green bonds are debt securities issued to fund an environmentally friendly project.

Background

The Luxembourg Agenda for Sustainable Development, the European Commission's Action Plan on Financing Sustainable Growth (the "**Action Plan**") and the listing on the LuxSE Regulated Market of green bonds issued by the European Investment Bank ("**EIB**") are some of the factors that have created a conducive climate in the European Union ("**EU**"), particularly in Luxembourg, for green-bond investment activities.

The Luxembourg Green Exchange ("LGX")

The world's first platform dedicated to green bonds, the Luxembourg Green Exchange ("LGX"), was launched in 2016. LGX is a platform for different types of sustainable finance instruments (e.g. bonds and indices), aligned to a recognised international standard, framework, taxonomy or label and compliant with LGX eligibility criteria.

LGX is not a separate market on the Luxembourg Stock Exchange ("LuxSE") but rather a platform on which securities related to activities with a positive environmental impact are displayed, along with relevant information, incorporated into a "security card", namely their LGX profile.

Securities traded on the Regulated Market or Euro MTF of LuxSE and those listed on the Luxembourg Securities Official List ("LuxSE SOL") can also be displayed on LGX.

Today, LGX is the world's leading centre for the listing of green bonds and the European leader in responsible investment fund assets.

In 2017, the EIB, a leading green bonds issuer, concluded a memorandum of understanding with Luxembourg introducing a Climate Finance Platform, paving the way for the listing of green bonds. Currently, the EIB has 32 green bonds listed on LGX. In total, there are currently more than 250 green bonds and 198 sustainability bonds listed

on LGX (174 of the latter are issued by the World Bank). Amongst the issuers of green bonds on LGX are Commerzbank, Caja Rural de Navarra, DZ Bank, CCB International, Industrial Bank Co., Ltd. and Tianjin Rail Transit.

Advantages of LGX

The advantages of having a green bond displayed on LGX are the following:

- a. the green bond and its issuer become part of a platform internationally recognised for its expertise in green finance;
- b. each green bond is granted a security card, providing enhanced visibility and the opportunity to display all sustainability documentation, at no additional cost;
- c. enhanced transparency provides the opportunity to promote the sustainable finance strategy of an activity and/or issuer; and
- d. the commercial value of the activity and/or issuer is enhanced through the establishment of a sustainable profile.

Eligibility criteria

The criteria for a green bond to be displayed on LGX are set and reviewed by the exchange itself and are further described below.

If a bond is not granted access to LGX, it can still be listed on LuxSE SOL or be traded on the Regulated Market or Euro MTF.

A. Listing requirements

In order to join LGX, the issuer must first list its green bonds on a market operated by LuxSE, i.e. the Regulated Market or the Euro MTF, or on LuxSE SOL.

For more information on the listing requirements for debt securities on LuxSE, please refer to our "Listing of Debt Securities in Luxembourg" brochure.

In practice, the listing application with LuxSE includes an LGX application, duly completed and signed. The application can be found on the website of LuxSE: (https://www.bourse.lu/documents/form-LGX-application_funds.pdf).

B. Classification

The issuer of green bonds must commit that the net proceeds raised from the issue will be used for green and/or sustainable projects. In addition, the standards or guidelines the issuer follows for the bonds issuance must be identified. The issuer must also indicate the percentage of the proceeds to be used for new financing and the percentage to be used for the refinancing of existing projects and/or assets.

The classification refers to the bonds themselves, not the issuer. Therefore, any issuer may request that its securities be listed on LGX, including, in principle, those in so-called "brown industries".

The categories of eligible green projects, as defined by the International Capital Markets Association ("ICMA") Green Bond Principles ("GBP"), include:

- ✔ renewable energy;
- ✔ energy efficiency;
- ✔ pollution prevention and control;
- ✔ environmentally sustainable management of living natural resources and land use;
- ✔ terrestrial and aquatic biodiversity conservation;
- ✔ clean transportation;
- ✔ sustainable water and wastewater management;
- ✔ climate change adaptation;
- ✔ eco-efficient and/or circular economy adapted products, production technologies and processes; and
- ✔ green buildings which meet regional, national or internationally recognised standards or certifications.

In practice, the following activities are excluded from the scope of eligible activities financed through green bonds: nuclear power generation, trade that violates the Convention on International Trade in Endangered Species of Wild Fauna and Flora ("CITES"), animal testing for cosmetics and other non-medical products, medical tests on endangered species and fossil fuels.

C. External review

An additional requirement to enter LGX, and to remain on LGX until maturity of the bonds, is the submission of an independent external review. By way of derogation from this requirement, for large issuers involved solely in eligible activities, LGX may choose to conduct an internal due diligence.

The external review may take any form (e.g. a second party opinion, verification report, certification or scoring/rating) accepted by LGX. The latter has adopted the Guidelines for External Reviewers issued by ICMA's Executive Committee, which provide voluntary guidance on professional and ethical standards for external reviewers and the organisation, content and disclosure of their reports.

External reviews generally focus on the following areas:

- i. the use of proceeds framework, with a conclusion as to whether the framework is aligned with acceptable green or sustainability taxonomies, generally performed prior to the issuance;
- ii. the actual use of the proceeds compared to the planned use thereof, often carried out within the first twelve (12) months after issuance of the bonds;
- iii. the alignment of the project selection and evaluation process, allocation and management of the proceeds and reporting with internationally accepted principles such as those issued by ICMA, carried out either before or after the issuance;
- iv. the controls in place within the management process, allocation of the proceeds and impact reporting (where provided), carried out post-issuance, often through maturity of the bonds or until full allocation of the proceeds.

D. Ongoing reporting requirements

The ongoing disclosure of information about the intended and actual use of proceeds is a prerequisite for green bonds to remain listed on LGX. The choice of key performance indicators ("KPIs") and the frequency of the disclosure of information are at the issuer's discretion. However, issuers are encouraged to make their KPIs/metrics known and report on them, with special attention to anticipating the green or sustainable added-value of the projects behind the financial instrument.

LuxSE conducts an annual review (with the first mandatory reporting occurring as from twelve (12) months after issue or another date to be agreed with LuxSE), often aligned with the issuer's financial year-end, to verify whether the disclosure and transparency requirements are fulfilled. LuxSE reserves the right to remove a bond from LGX, if it does not sufficiently abide by the disclosure requirements.

The aim of these ongoing reporting obligations is twofold: to inform investors about how funds are allocated to projects and, where applicable, to report on the expected environmental or sustainable impact.

Issuers are encouraged by LuxSE to voluntarily report on the allocation of funds and the impact of their business throughout the life of a green bond, from issuance to maturity and through allocation of the proceeds.

Disclosure is made using one of the following formats:

- i. a use of proceeds reports;
- ii. Environmental, Social and Governance ("ESG") /Sustainability reports containing information about the funding behind the bonds;
- iii. newsletters (or the equivalent) giving appropriate information on the use of proceeds (projects, sectors, territories and the expected impact); and
- iv. impact reports.

In addition, a transparency commitment and on-going use of proceeds/impact reporting are required of the issuer.

Eligibility categories

Apart from green bonds, the following bonds are, in principle, eligible for display on LGX, provided they fulfil the abovementioned eligibility criteria.

i. **Social bonds**

The net proceeds raised from the bonds must be used to finance or refinance social projects as defined in ICMA's Social Bond Principles.

ii. **Sustainability bonds**

The net proceeds raised from the bonds must be used to finance or refinance a mix of green and social projects, as defined in ICMA's Sustainability Bond Guidelines.

iii. **Chinese green bonds**

The eligibility criteria for these bonds are set out in the People's Bank of China ("PBOC") Green Bond Endorsed Project Catalogue, the National Development and Reform Commission ("NDRC") Guidelines and China Securities Regulatory Commission ("CSRC") Guidelines.

Nevertheless, the PBOC Green Bond Endorsed Project Catalogue accepts retrofits of fossil fuel power stations, clean coal and coal efficiency improvements, and rail lines that mainly transport fossil fuels, which are not accepted under the Climate Bonds Taxonomy.

Guidelines and standards

Currently there is no legislation at the EU level specifically regulating the offering to the public and/or listing of green bonds. Internationally recognised standards, however, support the issuance and listing of greens bonds. LGX does not impose specific standards to be followed. Issuers, offerors and persons requesting admission to LGX may be guided by:

- i. ICMA's guidelines and green bonds principles;
- ii. the Assurance Framework for the Climate Bond Standard;
- iii. the Guidelines for the Conduct Assessment and Certification of Green Bonds (Interim) jointly issued by the People's Bank of China and the China Securities Regulatory Commission;
- iv. the draft EU Green Bond Standards published by the High-Level Expert Group ("HLEG") on Sustainable Finance as part of the EU Action Plan;
- v. the ASEAN Green Bond Standards;
- vi. the Guidelines for External Reviewers issued by ICMA's Executive Committee;
- vii. any other framework in line with the foregoing.

In addition, an External Review Service Mapping Template concerning the external reviews to be conducted prior to listing a green bond on LGX is currently being developed and will serve as reference for external reviewers.

Moreover, the EU is currently reviewing the taxonomy of economic activities based on their contribution to EU sustainable development objectives. The results of this review, along with the EU Green Bond Standard, once finalised and adopted, will provide the EU green bonds market with a harmonised, transparent and clear framework.

The following table compares how certain core issues are addressed by internationally recognised green bond standards:

Topic	ICMA Green Bond Principles	CBI Climate Bonds Standard	Chinese Standards	Draft EU Green Bond Standard
Reference of alignment with standard/framework in legal documentation	Recommended	Required	Not required	Required
Project categories	Guidance on high-level categories	Linked to detailed qualification criteria	Detailed green catalogue	Compliance with a detailed EU sustainability taxonomy
Disclosure of the percentage of proceeds used for refinancing	Recommended	Required	Recommended	Required
Impact monitoring and reporting	Recommended	Addressed in Climate Bonds Standard qualification criteria	Recommended	Required to report whether the issuer monitors impacts and, if so, disclose estimated/actual impacts
External review requirements	Recommended External review may be partial, covering only certain aspects of an issuer's green bond or associated green bond framework, or full, assessing alignment with all four core components of the GBP.	Required	Recommended	Required External review must confirm at least the alignment, upon issuance, of the EU green bond issue with all four core components of the EU GBS or, alternatively, confirm the alignment of the EU green bond programme as a whole.
Publication of external review	Recommended	Recommended	Recommended	Required
Accreditation of external reviewers	Not addressed	"Approved Verifier" list	Required	Accreditation requirements

Source: https://www.bourse.lu/sustainability_standards_and_labels

Green funds

LGX is the European leader for the listing of green funds.

LuxFLAG's Climate Finance, Environment, Social and ESG labels, FNG's label for sustainable mutual funds, the Nordic Swan Ecolabel for funds, the French government's SRI and TEEC labels, and the Austrian ecolabel for financial products (*Österreichisches Umweltzeichen*) are the standards which can be used as guidance for the listing of green funds on LGX.

Green covered bonds

Luxembourg was the first country to pass legislation on green covered bonds. These provisions were incorporated into the Luxembourg Act on the Financial Sector of 1993 ("**LFS**"). New classes of green covered bonds were introduced, i.e. public sector green covered bonds, real estate green covered bonds, movable assets green covered bonds, and mutual green covered bonds.

LuxSE is the world's leading exchange for the listing of international covered bonds, accounting for 48.7% of global listings. If the eligibility criteria are met, green covered bonds can be displayed on LGX.

Relationships with third countries

Apart from its role as the European leader in green bonds and the passporting of securities admitted to trading on the Regulated Market, LuxSE has evolved into a significant venue for international cooperation with a view to supporting the financing of green industries.

Memoranda of Understanding ("MoU")

LuxSE has signed MoU specifically relating to cooperation on green bonds with the Santiago Exchange in Chile and the Industrial Bank of China.

Chinese domestic Green Bond Channel ("GBC")

LGX also serves as a European channel to the Chinese green bond market, providing information about Chinese domestic green bonds listed on the Shanghai Stock Exchange to international investors. LGX is committed to providing exhaustive information in English to offshore investors.

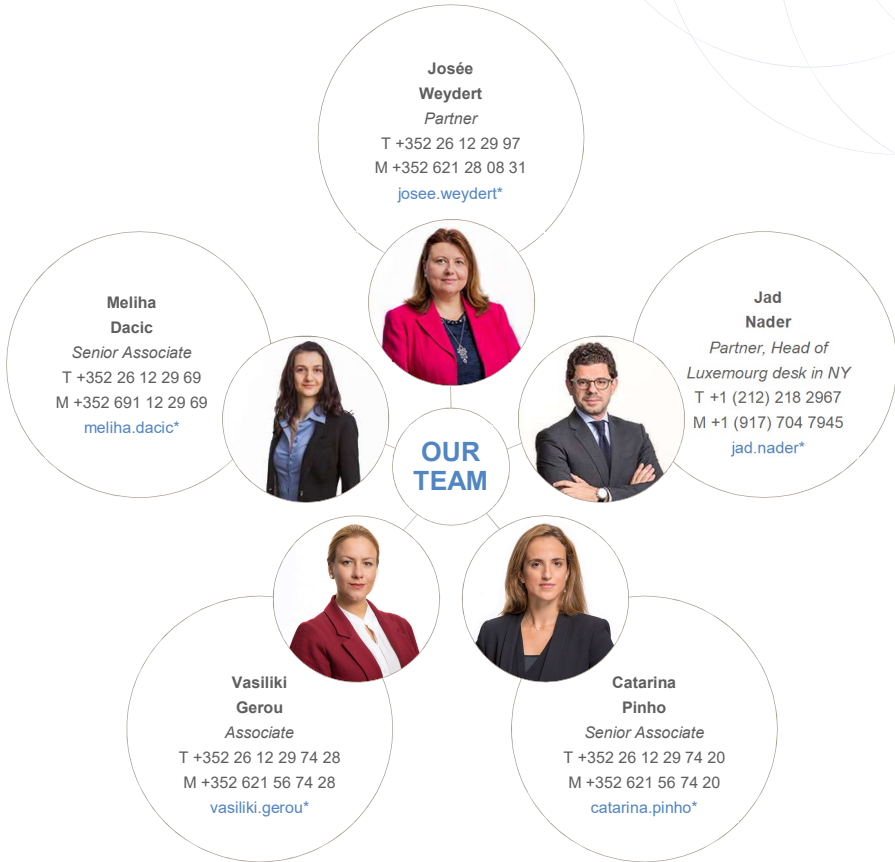
In addition, all bonds displayed on LGX are available to international investors and may be traded on the domestic markets on which they are listed in China.

Fees

There is no special fee to list a green bond on LGX. General LuxSE listing fees and prospectus approval fees apply. For more information about the applicable fees, please refer to our "Listing of Debt Securities in Luxembourg" brochure.

Contacts

We hope you found this publication useful and welcome the opportunity to answer any questions you might have about its content.



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