



# CCFC

CLIMATE FINANCE ADVISORY GROUP

GREEN BONDS PRINCIPLES MX

2018 V.01

## I. INTRODUCTION

The Climate Finance Advisory Group (CCFC, in Spanish) has the objective of facilitating dialogue in order to foster the promotion of green project financing in our country, to have an impact on market practices, regulations and/or investment mandates that influence the creation of incentives to enhance the development of the market.

To this purpose, the CCFC has launched the "Green Bonds Principles MX", with the aims of establishing common guidelines that can help green bond issuers in the Mexican market with the green bond issuance process, and at the same time provide certainty to investors regarding the environmental benefits of the projects financed through the proceeds raised.

The CCFC's "Green Bonds Principles MX" present clear transparency requirements to determine the green credentials of a bond including its use and management of proceeds, project selection, reporting requirements and external reviews.

They are based on the internationally renowned Green Bonds Principles<sup>1</sup> (GBP), with more details regarding certain points. A security that complies with the "Green Bonds Principles MX" would automatically comply with the international GBP.

The CCFC's Principles also include a compulsory external review, which could be a second opinion or a certification against the international Climate Bonds Standard – the Standard builds on the GBP and in addition includes sector-specific eligibility criteria for green projects<sup>2</sup>. Alignment with the Green Bond Principles MX and the Climate Bonds Standard is complementary.

By promoting more precise principles we are striving to give issuers and investors greater clarity over what requirements need to be met in order to label a bond as a Green Bond MX, all for the sake of speeding up the development of this market in Mexico.

<sup>1</sup>Issued by the GBP Executive Committee, which is comprised of issuers, investors and intermediaries, and are coordinated through the International Capital Markets Association (ICMA). The GBP can be found at: <http://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/green-bond-principles/>

<sup>2</sup><https://www.climatebonds.net/standards/about>

## II. DEFINITION OF A GREEN BOND MX

Any debt instrument, capital or hybrid, which complies with the "Green Bonds Standard MX" published by the CCFC can be labelled as a Green Bond MX.

The fact that any debt instrument, capital or hybrid, can be labelled as a Green Bond MX means that:

- It can be issued as a debt instrument, subordinated debt, or as any other capital instrument or preferred capital.
- It can be issued by a national, international or multilateral financial institution in order to provide credit to "Green Projects", or by any company or by the federal, state, or municipal governments that are developing "Green Projects", even when the payment source are the balance sheets of the company or government and do not come from a specific project.
- It can be issued through a specific purpose vehicle for investment in the stock capital of a company with "Green Projects", or for the financing of "Green Projects", by establishing as payment source the revenue specifically generated by said projects or any other source linked to them.
- It can be an asset backed security such as a securitization backed by loans or any other asset or title resulting from the "Green Projects".

## III. CCFC'S GREEN BONDS PRINCIPLES MX

The "Green Bonds Principles MX" are comprised of five components:

1. Use of proceeds from the issuance.
2. Evaluation and project selection process.
3. Emission proceeds management.
4. Reporting.
5. Independent third-party opinion.

## 1. USE OF PROCEEDS FROM THE ISSUANCE.

All the proceeds from the issuance of a Green Bond MX have to be used solely for financing or refinancing new or existing "Green Projects". The financing or refinancing can be partial or in full depending on the proceed requirements of each "Green Project".

All of the above must be clearly stated in the legal documentation of the issuance.

A "Green Project" is one that generates clear and specific environmental benefits which must be described in detail and, whenever possible, quantified by the issuer

The environmental benefits of a "Green Project" can be very diverse. The following is an indicative, though not limitative, list of "Green Project" categories:

- Renewable energy (including production, transmission, gadgets, instruments and devices).
- Energy efficiency (such as new and rehabilitated buildings, energy storage, smart electric grids, gadgets, instruments and devices).
- Pollution prevention and management (such as waste water treatment, greenhouse gases control, soil rehabilitation, waste recycling).
- Sustainable living resources management (including sustainable agriculture, fishing, aquaculture and forestry, biological crop protection, and drip watering).
- Biodiversity conservation (such as marine ecosystem protection).
- Clean transport (including electric, hybrid and public transport, non-polluting vehicle infrastructure).
- Sustainable water management (such as sustainable clean water infrastructure, sustainable urban sewage systems and flood mitigation mechanisms).
- Climate adaptation (including information systems such as weather stations and disaster prevention systems).

- Environmentally efficient products, processes and production technologies (such as development of climate-friendly certified products, packing mechanisms and environmentally efficient distribution schemes).

## 2. EVALUATION AND PROJECT SELECTION PROCESS.

The issuer of a Green Bond MX will have to include the following information in the legal documentation of the issuance:

- The decision making process it will follow to determine that the projects to be financed with the proceeds from the Green Bond MX issuance really generate clear and specific environmental benefits, in other words, determine that they are truly "Green Projects".
- The eligibility criteria to be used in selecting the "Green Projects", considering the definition laid out in Component 1 of these Principles.
- The sustainable environmental objectives of the financed "Green Projects".

## 3. MANAGEMENT OF PROCEEDS

The net product of a Green Bond MX will be separated into a subaccount, transferred into a sub-portfolio or tracked by the issuer in an adequate manner, through a formal internal process that allows the proceeds from the issuance to be linked with the credit or investment operations of the issuer into "Green Projects".

In the event that the legal documentation of the issuance specifies that a portion of the proceeds from the issuance will not be immediately allocated to "Green Projects", these will have to be invested under specific policies, which the issuer will have to disclose to the investor, and the formal internal process will have to include the tracking of such investments.

## 4. REPORTING

Until the full allocation of proceeds, the issuer will have to annually report on the use of proceeds from the issuance and the underlying "Green Projects", and when applicable, the temporary investment of proceeds not allocated at that date.

The issuer will have to provide at least annually the list of "Green Projects" that have been partially or completely financed with the proceeds from the issuance, as well as a brief description of the projects, the amounts assigned and the expected mitigation and/or adaptation impacts of each project. Additionally, it must be stated whether the proceeds will be used in the financing of a new project or the refinancing of an existing one.

When, due to confidentiality restrictions, competition concerns or for any other reason, the detailed information of a project cannot be divulged, the information may be presented in generic or aggregate terms.

In order to report on the expected environmental benefits of each project, qualitative indicators will have to be employed and, whenever possible, quantitative metrics. For example, greenhouse gases emission reductions, clean energy generation, etc. The assumptions and methodologies used in the generation of such indicators will have to be included in the reports.

Likewise, whenever possible and at least annually, the issuer will have to mention the estimated environmental benefits generated by the financed projects so far.

When an issuer has already placed a Green Bond MX, the legal documentation of the issuance will have to include a section that references past issuances, in order to facilitate the analysis of the end results of these issuances by potential investors.

## 5. INDEPENDENT REVIEW

The legal documentation of the issuance needs to be accompanied by an external review of an independent third-party concerning the compliance of components 1-4 established in the CCFC's "Green Bonds Principles MX". This can take the form of a Second Party Opinion or Certification<sup>3</sup>. In said documentation the capacities, relevant experience and independence of the entity conducting the external review will have to be stated.

<sup>3</sup>Second Party Opinions are bespoke reviews of the green credentials of a bond; they often refer to the Green Bond Principles as coordinated by the International Capital Markets Association. The Certification process is a verification of the green credentials of a bond against an existing framework. The only existing standard for green bonds is the Climate Bonds Standard, coordinated by the Climate Bonds Initiative

Additionally, each annual report containing the expected environmental impacts of each project, along with their qualitative and quantitative indicators, will have to be accompanied by an external review issued by an independent third-party regarding the validity of such estimates. In said documentation the capacities and relevant experience of the entity conducting the external review will have to be stated.

The external review (a Second Party Opinion or Climate Bonds certification) detailed above will have to be published in the relevant documentation on the same terms they have been issued by the independent third-party.

### *About the CCFC*

*The Climate Finance Advisory Group (CCFC) is constituted as an independent organization that has as its stated objective the promotion of climate finance in Mexico, to have an impact on market practices, regulations and investment mandates; promoting green project financing and the development of incentives that permit the growth, promotion and development of the market.*

*The CCFC's structure is comprised of the Council's Promoters, the Presidential Assembly, the Board Members, the Technical Secretariat, the leaders of five associations of the financial market: Asociación de Bancos de México (ABM), Asociación Mexicana de Instituciones Bursátiles (AMIB), Asociación de Administradores de Fondos para el Retiro (AMAFORE), Asociación Mexicana de Instituciones de Seguros (AMIS), Asociación Mexicana de Asesores Independientes de Inversiones (AMAI), representatives of Development, Multilateral Banks, Issuers and Verifiers.*

### *About Grupo BMV*

*Grupo BMV is comprised by companies that together offer integrated services that facilitate the operation and post-negotiation of the securities and derivatives market in Mexico, backed by a modern and cutting-edge technological infrastructure throughout all of its companies.*

*We operate a stock and a derivatives exchange, a securities and OTC derivatives brokerage firm, the central securities depository of Mexico where the keeping and liquidation of securities is conducted, a securities and other derivatives compensations chamber, as well as a price valuation firm and risk management services.*