

# Guernsey Green Finance

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## November 2018

In order to meet the Paris Agreement obligations, there is a concerted effort of the international community to push for greater investment in environmentally sustainable projects.

However, even with the best of intentions of both banks and borrowers, the debt markets have not yet seen the growth necessary to meet this international demand. With this lack of investment principally due to the absence of a clear framework as to what constitutes Green finance.

The introduction of the Green Loan Principles and Green Bond Principles in 2018 has now put an end to this uncertainty, and provides a sound and internationally accepted infrastructure to facilitate the provision of Green finance. Allowing companies to demonstrate their commitment to environmental sustainability to their investors and other stakeholders.

## Green Loans

Earlier this year, the Loan Market Association and the Asia Pacific Loan Market Association issued their 'Green Loan Principles' as a benchmark for the Green loan market.

The Green Loan Principles define Green Loans as any type of loan instrument made available exclusively to finance or re-finance new and/or existing eligible Green Projects. The list of Green Projects is comprehensive enough to cover substantially all Green projects, including renewable energy, pollution prevention and control, clean transportation and climate change adaptation, to name a few.

To qualify as a Green Loan, the loan must align with the four core components of the Green Loan Principles:

1. Use of Proceeds: Green Loan proceeds must be used for Eligible Green Projects, including related expenditures and R&D.
2. Process for Project Evaluation and Selection: borrowers should communicate to lenders the environmental sustainability objectives of the financing, together with the process by which it determines whether a project falls within the Eligible Green Project criteria.
3. Management of Proceeds: the proceeds of a Green Loan (or tranche) should be credited to a dedicated account or otherwise tracked by the borrower in an appropriate manner, so as to maintain transparency and promote the integrity of the Green Loan.
4. Reporting: borrowers should make and keep readily available up to date information on the use of proceeds to be renewed annually until fully drawn, and as necessary thereafter in the event of material developments.

## Green Bonds

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In June 2018, the International Capital Market Association updated their original 'Green Bond Principles', to provide further synergy with the more recent 'Green Loan Principles'.

The 2018 edition of the Green Bond Principles remains framed by the four core components subsequently adopted by the Green Loan Principles, and has also extended the eligible project categories to match the list used in the Green Loan Principles.

Under the Green Bond Principles, there are presently four specific types of Green Bond provided for:

1. Standard Green Use of Proceeds Bond: a standard recourse-to-the-issuer debt obligation.
2. Green Revenue Bond: a non-recourse-to-the-issuer debt obligation, in which the credit exposure in the bond is to the pledged cash flows of the revenue streams, fees, taxes etc., and whose use of proceeds go to related or unrelated Green Project(s).
3. Green Project Bond: a project bond for a single or multiple Green Project(s) for which the investor has direct exposure to the risk of the project(s) with or without potential recourse to the issuer.
4. Green Securitised Bond: a bond collateralised by one or more specific Green Project(s), including covered bonds, asset backed and mortgage backed securities and other structures, and aligned with the Green Bond Principles.

### **TISE Green Segment**

In November 2018, The International Stock Exchange (TISE), the stock exchange based in Guernsey, launched its Green segment, where issuers can now list their Green securities, including Green Bonds. Listing a Green Bond on TISE allows issuers to use the TISE Green logo, providing an instantly recognisable independent verification of the bond's Green credentials.

Qualification as a TISE listed Green Bond simply requires third party verification that the Bond satisfies the Green Bond Principles, so there are no additional qualification requirements which an issuer needs to consider.

### **Why Guernsey**

Guernsey has traditionally been a key conduit for loan finance into the UK and the rest of Europe, and is recognised as one of the fastest developing finance centres in the Green investment space. By utilising the Green Loan Principles and Green Bond Principles, and taking advantage of both the TISE Green logo and Guernsey's rapidly growing reputation as Green investment hub, borrowers and lenders now have the ideal platform on which to build their Green credentials.

If you'd like to discuss how Collas Crill can help you in structuring your Green Loan or Green Bond, then please feel free to contact us.

For more information please contact:



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