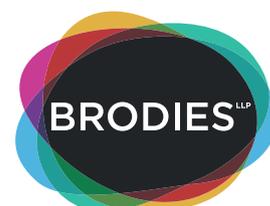


GREEN FINANCE HANDY GUIDE



GREEN FINANCE

As we move towards becoming a more sustainable society, green finance has stimulated an increasing level of discussion over the last few years, and interest from banks and other financial institutions, investors, potential borrowers and those in professional services is now accelerating even more.

There is not an agreed standard definition of exactly what “green finance” is, but a commonly accepted basic principle is that it should provide funding which achieves a positive environmental result. Green bonds were the forerunning green finance product, but there are now several other green finance products on the market such as green loans, green mortgages and green investments.

This guide provides an overview of the main factors that impact the future of green finance and some of the key terminology used in the green finance sphere.



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KEY ISSUES

Governmental Regulation and Policy

An overarching question in relation to green finance is to what extent should the UK Government implement policies and regulations to encourage its growth? Having signed up to the 2015 Sustainable Development Goals and the 2016 Paris Agreement, the UK Government has international commitments to fulfil in the environmental/sustainability sphere and the development of green finance would clearly be beneficial in meeting these commitments.

With the UK Government's Industrial Strategy (2016), Clean Growth Strategy (2017), 25 Year Environment Plan (2018), Road to Zero Strategy (2018), Green Finance Strategy (2019) and related targets, there are additional motivations for the UK Government to act.

And then we have Brexit. Will the Government favour setting up a UK Investment Bank to fill the gap left by funding that would have been provided by the European Investment Bank, which provided much funding to green energy projects and sustainable initiatives? Perhaps the most useful policies that the UK Government and devolved governments can put in place to further support the development of green finance will be those that create a good pipeline of green infrastructure projects, for which large amounts of finance is required.

Pricing and Risk

Another hot topic in relation to green finance is pricing and risk. Some banks have begun offering discounted loan margins on certain loans which are for green purposes, such as energy efficiency. In some cases this has been justified by the principle that green loans are less risky.

In a similar vein, the European Commission and the European Parliament are considering backing a Green Supporting Factor, which would involve lowering capital requirements for banks in relation to the green loans they provide. This means that green loans would be treated as lower risk than loans that support "brown" companies or projects. There is currently much debate about this, since this would have clear potential to boost the green finance sector, but also to open banks up to being greater affected by any losses. And the question is still open as to whether green loans as a whole are less risky, or if this is only true in certain cases.



KEY TERMINOLOGY

EU Taxonomy

In June 2019, the European Commission's Technical Expert Group on sustainable finance issued its technical report on an EU taxonomy which considers the basis for a future EU taxonomy in legislation. It contains technical screening criteria for various activities that can contribute to climate change mitigation and various guidance for investors. A "Proposed Taxonomy Regulation" is now advancing through EU legislative processes.

Green bond

A bond from which the proceeds raised are applied in respect of activity which has positive environmental benefits. The first designated green bond was issued by the European Investment Bank in 2007, and since then green bonds have continued to grow in popularity. Green bonds are now being issued worldwide by banks, corporates, public bodies and countries.

Green Bond Principles

See "Green Loan Principles" below.

Green Finance Initiative

Set up in January 2016 by the City of London Corporation in partnership with the Government, the Green Finance Initiative seeks to provide leadership on green finance, advocate for regulatory and policy

changes which would assist the green finance sector, and to promote London and the UK as leaders in green finance. Although there appears to be some overlap in remit with the newer Green Finance Institute, the Green Finance Initiative remains as a separate entity.

Green Finance Institute

Following recommendation of the Green Finance Taskforce, the Green Finance Institute was launched in June 2018. It is funded by the Government and The City of London Corporation and it aims to consolidate the UK's existing skills and experience in relation to green finance, generate future business opportunities in that market and mark out the UK as a leader in pushing the development of green finance.

Green finance strategy (UK)

Published in July 2019, the green finance strategy is a policy paper by the UK Government (HM Treasury and the Department for Business, Energy & Industrial Strategy). The strategy proposed is split into three arms: Greening Finance, Financing Green and Capturing Opportunities.

The main aims of the strategy are to align private sector financial flows with sustainable projects, leading to UK economic growth and increased



KEY TERMINOLOGY CONTINUED

Green Finance Taskforce

Chaired by Sir Roger Gifford, an experienced banker and former Mayor of London, the Green Finance Taskforce was brought together in September 2017 as an independent taskforce to report on recommendations on how green finance could be further supported in the UK. They published their report in March 2018 and recommendations included driving demand and supply for green lending products, issuing a sovereign green bond and building a green and resilient infrastructure pipeline.

Green investment fund

An investment vehicle which invests in companies which are focused on delivering green projects or which conduct their business in an environmentally sustainable manner.

Green loan

A green loan can be a loan issued in accordance with the Green Loan Principles as

described below. However, some loans which do not comply with the Green Loan Principles can also be referred to as green loans. The most common type of green loan which would not comply with the Green Loan Principles is a loan to a company which conducts its business in a sustainable manner but which does not pursue overtly green projects.

Green Loan Principles

The Loan Market Association, together with the Asia-Pacific Loan Market Association, issued its Green Loan Principles in March 2018, which were based on the International Capital Market Association's Green Bond Principles (released in 2014). These are voluntary guidelines for market participants to follow, with the aim of encouraging clarity as to when a loan can legitimately be considered a "green loan". The Green Loan Principles and the Green Bond Principles share four main components: Use of Proceeds; Process for Project Evaluation and Selection; Management of Proceeds; and Reporting. The common theme throughout each of the components is transparency.

KEY TERMINOLOGY CONTINUED



Green tagging

Green tagging refers to the process which banks go through to identify the "green" or environmental credentials of their loans and related collateral assets. This process can be carried out for both new and existing loans and it has a number of benefits such as allowing banks to have easier access to data about the environmental aspects of their lending and smoother access to the green bonds market.



Green washing

This term refers to when a type of financing arrangement or investment is held out as being "green" but in reality its green credentials are not particularly strong (e.g. compliance with green covenants in a loan product is not sufficiently monitored) or not very transparent. This is a particular risk since there is no accepted standard position as to what should constitute green finance.



Low carbon economy

An economy fuelled by low or zero carbon power sources which emit a minimum of greenhouse gases. Also sometimes referred to as a "low carbon and renewable energy economy" or "green economy".



Sustainable finance

Sustainable finance is an umbrella term for funding that is provided in an ethical way or for ethical purposes. As such, green finance can be included in the term sustainable finance but so too can other types of socially responsible and faith-based financing.

HOW CAN BRODIES HELP YOU?

With specialist Banking & Finance, Energy & Infrastructure and Real Estate teams, we have all the legal know-how and related business acumen that you need to help you with any green finance related transactions and initiatives.

MEET OUR TEAM

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ENLIGHTENED THINKING

