Sustainable Securitisation

Related questions

June 2022

The Q&As below will be included in the Guidance Handbook.
All cross references are related to Q&As of this Guidance Handbook.

List of Abbreviations and Acronyms (extract)

Core Components:	Requirements for the labelling of bonds issued in alignment with the Principles: *For GSS/UoP Bonds:* 1. Use of Proceeds 2. Process for Project Selection and Evaluation 3. Management of Proceeds 4. Reporting *For Sustainability-Linked Bonds:* 1. Selection of KPIs 2. Calibration of SPTs 3. Bond Characteristics 4. Reporting 5. Verification
GBP	Green Bond Principles
GSS	Green Bonds, Social Bonds or Sustainability Bonds
SBG	Sustainability Bond Guidelines
SBP	Social Bond Principles
UoP	Use of Proceeds Bonds (Green Bonds, Social Bonds and Sustainability Bonds)

1 Fundamentals

(…)

2 Core Components of the GBP/SBP

(…)

2.1.5 Can the proceeds of a GSS Bond issue be used to invest in GSS Bonds? (revised)

GSS Bonds should not typically qualify as use of proceeds for a GSS Bond other than for temporary management of proceeds' purposes prior to allocation to eligible projects. This reflects a concern that the impact of the same underlying project(s) may be reported both by the original GSS Bond issuer and by the issuer of the subsequent GSS Bond ("double-counting").

In the case of Secured GSS Bonds, or those issued to support the growth and development of GSS Bonds in emerging capital markets, the nature of the instrument, including the relationship between the instrument and any underlying collateral or derivative GSS Bonds, as well as the impact, should be transparently communicated to the market to avoid potential "double counting" complications. In relation to Secured GSS Bonds, please see Q 3.2 for more information.

A bond issued in the context of a liability management transaction, in which an existing GSS Bond is bought back and refinanced, may qualify as a GSS Bond if it is aligned with the Core Components of the GBP/SBP (see Q 2.2.4). This recognises that such refinancing can be a routine process by which issuers optimise their access to markets.

3 Secured GSS Bonds (New)

3.1 For Secured GSS Bonds, how are assets that are not originated by the issuer, originator or sponsor of the vehicles included?

The inclusion of "issuer", "originator" or "sponsor" or their group affiliates, as the case may be and as appropriate under 4(ii), should allow for parties responsible for organising a secured transaction to apply the use of proceeds towards Green and/or Social Projects in line with the GBP/SBP/SBG at the appropriate entity level. "Sponsor" is intended to cover situations where the assets have been acquired from other parties, among other possible applications. Please note that the term "sponsor" is not intended to correspond to the regulatory definitions per e.g. EU/US/UK risk retention regulations, but is rather supposed to convey that it is, generally, the entity which is responsible for organising the transaction and in control of it, including for publishing the GSS Bond framework.

3.2 Can the Green or Social Projects associated with a Secured GSS Bond be used again in a further green or social financing?

As referenced in Q 2.1.9[1] of this Guidance Handbook, the risk of "double counting" in relation to Secured GSS Bonds arises primarily from the fact that Green or Social Projects financed via the deployment of the proceeds of other types of GSS Bonds (e.g. a Standard GSS Use of Proceeds Bond or a Secured GSS Standard Bond) or another green or social financial instrument, could themselves theoretically be used as collateral for a Secured GSS Collateral Bond. However, this would not be aligned with the principle of avoiding "double counting" and as such is not permitted under the GBP and SBP, as would any other application that resulted in assets being reported as forming part of the use of proceeds of more than one issuance/financing (secured, or otherwise), in line with Qs 2.1.1 and 2.1.9. At any point in time, a Green or Social Project may only be counted towards one GSS Bond. This does not preclude refinancing however as once a GSS Bond is repaid the Green or Social Project may be used as collateral for a further GSS Bond. Investors may seek issuer disclosures as to the age and the remaining useful life of such assets, as well as their (re)evaluation for continuing environmental and/or social benefits (see Q 2.1.8 in that respect). This principle applies equally to Secured GSS Bonds as any other type of green or social instruments.

In the case of secured bond structures such as securitisations the GSS Bond label should only be made applicable to the capital market instrument being issued. Some secured bond structures such as securitisations can have various back-to-back financing arrangements between the various entities involved in the transaction, however only the final capital market instrument should claim the GSS Bond label. For example, in an Asset-Backed Commercial Paper ('ABCP') transaction there could be various back-to-back financings between the transaction originator, the ABCP conduit sponsor and the ABCP issuer, however only the ABCP is the capital markets instrument so only the ABCP can claim the GSS Bond label (the originator can say they have obtained green or social financing for the Green/Social Project but the back-to-back financings cannot claim the GSS Bond label as this would be double counting). Each time the ABCP is refinanced ('rolled over') the new ABCP can continue to claim the GSS Bond label for as long as it continues to finance the underlying Green/Social Project and that the environmental and/or social benefits of the assets/projects have been reaffirmed (Q2.1.1 and 2.1.8). Once the relevant capital market financing has been repaid (in the above example because the

[1] **2.1.9 Can eligible assets that are funded through a Green, Social or Sustainability Bond be used as collateral in other financing deals?**

Yes. The issuer should make clear that the eligible assets have been or may be pledged as collateral in financing transactions in their reporting on the use of proceeds and/or in their GSS Bond framework. In addition, the issuer should clarify that the new financing raised will not be used for any purposes that would damage the integrity of the GSS Bond.

financing arrangement between the transaction originator and ABCP conduit sponsor had matured or been refinanced) then the relevant originator may however refinance the collateral by other means, for example refinancing into its own Secured Green Bond structure in the public ABS market.

3.3 What are the differences between traditional secured bonds (such as covered bonds) and securitisations from the perspective of the GBP/SBP?

For the avoidance of doubt, the core components of the GBP/SBP apply to all instruments, including all forms of Secured GSS Bonds. The dual-recourse nature of a covered bond is the most relevant difference and the Appendix of the GBP and SBP published in June 2022 has been clarified to ensure that all secured instruments, including dual-recourse instruments, such as covered bonds, fall under the Secured GSS Bond definition to ensure a consistency of approach. For each Secured GSS Bond, the issuer, originator or sponsor should clearly specify in its Bond framework and also in the bond marketing materials, offering documentation or by other means which method defined in (i) or (ii) above is being applied, i.e. whether it is a Secured GSS Collateral Bond or a Secured GSS Standard Bond.

3.4 What are the reporting requirements in the case of a Secured GSS Bond? Are these the responsibility of the issuer, originator or sponsor?

The reporting requirements from the perspective of the GBP/SBP are in line with other forms of GSS Bond, whilst acknowledging that certain market segments such as securitisation have substantially higher reporting thresholds as a result of both regulation and market practice that are also necessary. The reporting requirements for a Secured GSS Bond can be satisfied by either the issuer, originator or sponsor (or the appropriate group affiliate thereof), as per the relevant Green, Social or Sustainability Bond framework.

3.5 Are synthetic bonds included in the definition of Secured GSS Bond?

Synthetic bonds are not excluded from the definition of Secured GSS Bond. However, they do require further considerations that are not applicable to other Secured GSS Bond categories.

Where a Synthetic Secured GSS Collateral Bond approach is being taken, it is expected that the reference entities (or equivalent exposures) should all be Green and/or Social Projects on the balance sheet of the issuer, originator or sponsor.

Where a Synthetic Secured GSS Standard Bond approach is being taken, it is recommended that the relevant issuer, originator or sponsor consider for example, capital released, RWA benefit or other appropriate means of measuring the full impact of the transaction as may be defined in the relevant framework, via the issuance that is to be redeployed into Green and/or Social Projects, in relation to the use of proceeds being applied in accordance with the GBP/SBP, rather than solely the nominal proceeds of the relevant note issuance. This will require particular consideration, noting that the calculation of that capital amount at the point of issuance and subsequently of the capital amount deployed into Green and/or Social Projects, is typically an internal calculation of the issuer, originator or sponsor and is consequently less transparent for investors.

As with any other type of GSS Bond, there should be no double counting of Green and/or Social Projects under a Synthetic Secured GSS Bond with any other type of outstanding Green and/or Social Financing. i.e. the reference entities (or equivalent exposures) under an outstanding Synthetic Secured GSS Collateral Bond or the newly originated Green and/or Social Projects associated with the redeployed capital under an outstanding Synthetic Secured GSS Standard Bond should not be double counted with any other type of Green and/or Social Financing (however this would not prevent the refinancing of such Green and/or Social Projects after the redemption of the Synthetic Secured GSS Bond).

3.6 For Secured GSS Standard Bonds, are there sustainability criteria relating to the collateral that can be held?

Investors should form their own views as to whether, notwithstanding that the use of proceeds will be applied toward eligible Green and/or Social Projects in line with the GBP/SBP, the collateral in a specific Secured GSS Standard Bond transaction is in line with their investment mandate. Issuers, originators and/or sponsors (namely, the relevant entity responsible for reporting in accordance with the Green, Social or Sustainability Bond Framework, as appropriate) are encouraged to provide sufficient disclosure to enable them to do so.

3.7 Should specific classes or tranches of a Secured GSS Standard Bond that are GSS Bonds have separate ISIN codes?

Yes. Where certain notes issued as part of a Secured GSS Standard Bond are GSS Bonds and others are not, in order to ensure that investors can clearly distinguish between the two, they should form separate class(es) of notes, should be allocated separate ISINs and should be clearly labelled in all relevant marketing materials. Please note for the avoidance of doubt that, by definition, all issuances under a Secured GSS Collateral Bond approach would be considered a GSS Bond so it would not be possible to issue certain tranches as GSS Bonds and others which are not. Hence this approach, requires sufficient eligible Green or Social collateral for all ISINs in the transaction.

3.8 Is it possible to issue a Secured GSS Bond that is partly collateralised by Green and/or Social Projects at the time of issuance, where the remaining proceeds will be allocated to Green and/or Social Projects thereafter?

Yes, this situation can be accommodated via the issuance of a Secured GSS Standard Bond. The Green, Social or Sustainability Bond framework established by the issuer, originator or sponsor (as appropriate) should outline how the proceeds may be managed for example, at the time of issuance by the issuer, in whole or in part, to acquire/finance/refinance the initial Green and/or Social Projects and the remainder of the proceeds to be allocated thereafter to eligible Green and/or Social Projects. This approach is not however compatible with a Secured GSS Collateral Bond, where the transaction should be fully collateralised by one or more specific Green and/or Social Project(s) aligned with the GBP/SBP, at the time of issuance and where the net proceeds have been exclusively applied to finance or refinance the Green and/or Social Project(s) securing the specific bond (however this does not preclude a Secured GSS Collateral Bond having a revolving collateral pool, as long as all collateral securing the bond constitutes Green and/or Social Project(s) aligned with the GBP/SBP; nor would this preclude a Secured GSS Collateral Bond transaction with a 'ramp-up' period, where some of the bond proceeds are temporarily held in cash, or cash equivalents, for a short period of time prior to being fully invested in Green or Social Project(s) such that after the ramp-up period all the collateral securing the bond constitutes Green or Social Project(s) aligned with the GBP/SBP).

3.9 Is it possible to issue a Secured GSS Bond where a small part of the bond proceeds are used to fund transaction costs and expenses and/or reserve funds?

Yes, under a Secured GSS Bond the "net proceeds" will be exclusively applied to finance or refinance Green or Social Project(s) aligned with the GBP/SBP. The use of the term 'net proceeds' within the context of Secured GSS Bond structures such as securitisations may take account of where part of the bond proceeds is used to cover senior items such as (inter alia) transaction costs, expenses and reserve funds.

3.10 Is it possible to issue a Secured GSS Bond where some creditors rank super senior, ahead of the Secured GSS Bond?

Yes, the GBP/SBP appendix describes a Secured GSS Bond as one where "generally", the cash flows of assets are available as a source of repayment or assets serve as security for the bonds in priority to other claims. The use of the term 'generally' is designed to capture secured bond structures such as securitisations where it is customary to have some creditors that rank senior to bondholders in the priority of payments (such as trustees, servicers and other transaction counterparties essential for the running and operation of the transaction).