

# **Green Bond and Green Loan Assessment Methodology- Executive Summary**

MSCI ESG Research LLC

November 2021

<b>Contents</b>	Executive Summary	3
	Green Bond and Green Loan Assessment Methodology	3
	1. Use of Proceeds	4
	2. Process for Green Project Selection	4
	3. Management of Proceeds	4
	4. Ongoing Reporting	5
	Appendix	7

## Executive Summary

This document is a summary of the MSCI ESG Research Green Bond and Green Loan Assessment Methodology. The methodology outlines MSCI ESG Research’s approach to defining “green” bonds and “green” loans, i.e., bonds and loans whose proceeds have a clear net environmental impact and aims to have clear criteria to define such instruments. The methodology is subject to change based on the evolving areas for use of proceeds, changes in regulatory requirements and standard definitions.

## Green Bond and Green Loan Assessment Methodology

Green bonds are fixed-income securities in which the proceeds are exclusively and formally applied to projects or activities that promote the transition to a low-carbon economy or other environmental sustainability purposes.

Green loans (including syndicated loans and revolving credit facilities) are loans in which the proceeds are exclusively and formally applied to projects or activities that promote the transition to a low-carbon economy or other environmental sustainability purposes.

Bonds and loans are independently evaluated by MSCI ESG Research along four dimensions to determine whether an instrument is classified as a “green bond” or a “green loan”, respectively. For green bonds, these criteria reflect themes articulated in the Green Bond Principles set by the International Capital Markets Association (ICMA).<sup>1</sup> For green loans, these criteria reflect themes articulated in the Green Loan Principles set by the Loan Market Association (LMA). For both green bonds and green loans, we require clarity about a bond’s or loan’s:

1. Stated use of proceeds;
2. Process for green project evaluation and selection;
3. Process for management of proceeds; and
4. Commitment to ongoing reporting of the environmental performance of the use of proceeds.

Self-labeled green bonds and self-labeled green loans are evaluated using these criteria to identify the ones that may have a positive environmental benefit. In addition, green bonds and green loans can be issued under a sustainability bond/loan framework, social bond/loan framework or may be called “climate mitigation bonds/loans”, “transition bonds/loans”, or other similar nomenclatures. If

---

<sup>1</sup> Further details are in the Appendix on page 6 of this document

a bond or a loan (including a revolving credit facility) meets all the requirements of the MSCI Green Bond Assessment Methodology or MSCI Green Loan Assessment Methodology respectively, MSCI ESG Research considers it to be a “green bond” or “green loan”.

## **1. Use of Proceeds**

MSCI ESG Research has defined seven environmental categories as “green”. In cases where project categories do not overlap entirely with MSCI ESG Research definitions, MSCI ESG Research will consider bonds and loans to meet assessment criteria if at least 90% of the projected use of proceeds falls within the categories mentioned below.

The seven environmental categories defined by MSCI ESG Research are:

- Alternative Energy
- Energy Efficiency
- Pollution Prevention
- Sustainable Water
- Green Building
- Climate Adaptation
- Other

A summary of projects that are eligible under the seven categories mentioned above is provided on page 6 of this document. Note that a green bond or loan may take the form of one or more tranches of a bond or loan facility respectively. In such cases, the green tranche(s) must be clearly designated, with proceeds of the green tranche(s) tracked by the borrower in an appropriate manner, as mentioned in Principle 3 below.

## **2. Process for Green Project Selection**

The issuer must clearly delineate the specific criteria and process for determining projects or investments in the bond or loan-related documentation which can include, but is not limited to, the green bond or loan framework, investor presentation or website.

## **3. Management of Proceeds**

For green loans, a formal process to ring-fence net proceeds raised to the use of proceeds must be disclosed in the documentation. Where a green loan takes the form of one or more tranches of a loan facility, each green tranche(s) must be clearly

designated, with proceeds of the green tranche(s) credited to a separate account or tracked by the borrower in an appropriate manner.

For green bonds, a formal process to apply net proceeds raised or an amount equal to net proceeds raised to the eligible use of proceeds must be disclosed in the bond prospectus or supporting documentation.

#### 4. Ongoing Reporting

At issuance, the bond issuer or loan borrower must either report on projects or state its commitment to report within one year of issuance. Reporting must include one or more of the following:

- a list of specific projects/investments, including amount disbursed to each individual project;
- aggregate project/investment categories, including amount disbursed to each project type;
- or quantitative or qualitative reporting on the environmental impact of the project pool (e.g., greenhouse gas emissions savings, reduction in water consumption, increased energy efficiency per unit of output, etc.).

**Note: For bonds or loans that are within MSCI ESG Research’s standard coverage universe<sup>2</sup>, we follow the below process to track annual green bond or green loan reporting:**

- **Annual Reporting:** At issuance, issuers of green bonds or green loan borrowers must either report on projects financed by the instrument’s proceeds or commit to doing so within one year. This reporting obligation continues for the life of the bond or loan or until proceeds have been fully disbursed.
- **Reporting Review Period:** MSCI ESG Research reserves an additional three months beyond the 12-month deadline to review an issuer’s green bond or borrower’s green loan report.
- **Reporting Grace Period:** If an issuer or borrower has not published a report within 15 months of issuance, or 15 months of the prior use of proceeds report, it will be flagged as “On Watch” in MSCI ESG Research’s system. If the issuer or borrower has not published a report within 18 months from issuance or the last annual report, its bond or loan will not be considered as “green” as per MSCI ESG Research’s assessment due to lack of transparency.

---

<sup>2</sup> This includes all bonds that are part of the Bloomberg MSCI Green Bond Index. It also includes bonds and loans for which MSCI ESG Research is contractually bound to provide a Second Party Opinion on annual green bond or green loan reporting.

- **Annual Use of Proceeds Review:** If MSCI ESG Research’s review of annual green bond or green loan reporting confirms that the use of proceeds deviates from the use of proceeds categories mentioned below, the bond or loan will no longer be considered as “green” as per MSCI ESG Research’s assessment.

## Appendix

### The MSCI Green Bond and Green Loan Assessment Methodology

The MSCI Green Bond and Green Loan Assessment Methodology evaluates a bond’s alignment with four core criteria, which are based on the Green Bond Principles administered by ICMA and the Green Loan Principles administered by the Loan Market Association, mentioned below:

- Principle 1: Use of Proceeds
- Principle 2: Process for Project Evaluation and Selection
- Principle 3: Management of Proceeds
- Principle 4: Ongoing Reporting

The primary difference between the MSCI Green Bond and Green Loan Assessment Methodology, and the Green Bond Principles and Green Loan Principles, is in “Principle 1: Use of Proceeds”. The MSCI Green Bond and Green Loan Assessment Methodology contains more explicit eligibility and ineligibility criteria, than the Green Bond Principles and Green Loan Principles.

### Summary of the MSCI Green Bond and Green Loan Assessment Methodology use-of-proceeds categories

Green Category	Sub-Category
Alternative Energy	Wind, Solar, Geothermal, Biomass (subject to additional sustainability criteria), Waste Energy, Wave Tidal, Small Hydro, Large Hydro (subject to additional sustainability criteria), Biogas, Bio-fuels (first- and second-generation)
Energy Efficiency	Demand-Side Management, Battery, Fuel Cells/Hydrogen Systems, Smart Grid, Other Energy Storage (including pumped hydro storage), Superconductors, Natural Gas Combined Heat & Power, LED Lighting, Compact Fluorescent Lighting, Insulation, Hybrid/Electric Vehicles, Clean Transportation Infrastructure, Industrial Automation, IT Optimization Service & Infrastructure
Pollution Prevention & Control	Environmental Remediation, Waste Treatment (excluding landfill and incineration), Reuse & Recycling of Waste, Low Toxicity/volatile organic compounds (VOC), Conventional Pollution Control
Sustainable Water	Water Infrastructure & Distribution (with impact on water quality and access), Rainwater Harvesting, Smart Metering Devices, Drought-Resistant Seeds, Desalinization, Waste

	Water Treatment, Water Recycling Equipment & Services, Watershed Conservation Efforts
Green Building	Green-Certified Residential and Commercial Properties based on local environmental performance standards (e.g., ENERGY STAR, NABERS >3, etc.), Green-Certified Residential and Commercial Properties based on local environmental design standards (e.g., LEED-Certified, BREEAM, etc.), Uncertified Green Property Investments (top 15% energy efficiency within local market), Green CMBS or renovated real estate (subject to additional sustainability criteria)
Climate Adaptation	Flood protection, food security and stress-resilient agricultural systems, reforestation and watershed management, climate resiliency services (modernization of meteorological systems, catastrophe risk insurance).
Other	The “other” use of proceeds category includes environmental activities and projects that are not included in the six Use-of-Proceeds categories.

Source: MSCI ESG Research LLC, as of November 2021

In cases where project categories do not overlap entirely with MSCI ESG Research definitions, MSCI ESG Research will consider bonds and loans eligible if at least 90% of the projected use of proceeds falls within eligible categories.

**Summary of the Green Bond Principles 2021 green bond use-of-proceeds categories<sup>3,4</sup>**

The eligible green projects categories, listed in no specific order, include, but are not limited to:

- Renewable energy (including production, transmission, appliances and products);
- Energy efficiency (such as in new and refurbished buildings, energy storage, district heating, smart grids, appliances and products);
- Pollution prevention and control (including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/ emission-efficient waste to energy);
- Environmentally sustainable management of living natural resources and land use (including environmentally sustainable agriculture; environmentally sustainable animal husbandry; climate smart farm inputs such as biological crop protection or drip-irrigation; environmentally sustainable fishery and aquaculture; environmentally

<sup>3</sup> International Capital Markets (ICMA), The Green Bond Principles (GBP) 2021. June, 2021.

<sup>4</sup> The Green Loan Principles refer to the Green Bond Principles administered by ICMA, and hence have similar definitions of Principle 1, i.e. eligible Use of Proceeds as the Green Bond Principles



sustainable forestry, including afforestation or reforestation, and preservation or restoration of natural landscapes);

- Terrestrial and aquatic biodiversity conservation (including the protection of coastal, marine and watershed environments);
- Clean transportation (such as electric, hybrid, public, rail, non-motorised, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions);
- Sustainable water and wastewater management (including sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation);
- Climate change adaptation (including efforts to make infrastructure more resilient to impacts of climate change, as well as information support systems, such as climate observation and early warning systems);
- Circular economy adapted products, production technologies and processes (such as the design and introduction of reusable, recyclable and refurbished materials, components and products; circular tools and services); and/or certified eco-efficient products.
- Green buildings that meet regional, national or internationally recognized standards or certifications for environmental performance.

## Contact us

esgclientservice@msci.com

### AMERICAS

Americas	1 888 588 4567 *
Atlanta	+ 1 404 551 3212
Boston	+ 1 617 532 0920
Chicago	+ 1 312 675 0545
Monterrey	+ 52 81 1253 4020
New York	+ 1 212 804 3901
San Francisco	+ 1 415 836 8800
São Paulo	+ 55 11 3706 1360
Toronto	+ 1 416 628 1007

### EUROPE, MIDDLE EAST & AFRICA

Cape Town	+ 27 21 673 0100
Frankfurt	+ 49 69 133 859 00
Geneva	+ 41 22 817 9777
London	+ 44 20 7618 2222
Milan	+ 39 02 5849 0415
Paris	0800 91 59 17 *

### ASIA PACIFIC

China North	10800 852 1032 *
China South	10800 152 1032 *
Hong Kong	+ 852 2844 9333
Mumbai	+ 91 22 6784 9160
Seoul	00798 8521 3392 *
Singapore	800 852 3749 *
Sydney	+ 61 2 9033 9333
Taipei	008 0112 7513 *
Thailand	0018 0015 6207 7181 *
Tokyo	+ 81 3 5290 1555

\* = toll free

### About MSCI

MSCI is a leading provider of critical decision support tools and services for the global investment community. With over 50 years of expertise in research, data and technology, we power better investment decisions by enabling clients to understand and analyze key drivers of risk and return and confidently build more effective portfolios. We create industry-leading research-enhanced solutions that clients use to gain insight into and improve transparency across the investment process.

### About MSCI ESG Research Products and Services

MSCI ESG Research products and services are provided by MSCI ESG Research LLC, and are designed to provide in-depth research, ratings and analysis of environmental, social and governance-related business practices to companies worldwide. ESG ratings, data and analysis from MSCI ESG Research LLC. are also used in the construction of the MSCI ESG Indexes. MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc.

To learn more, please visit [www.msci.com](http://www.msci.com)

## Notice and disclaimer

This document and all of the information contained in it, including without limitation all text, data, graphs, charts (collectively, the "Information") is the property of MSCI Inc. or its subsidiaries (collectively, "MSCI"), or MSCI's licensors, direct or indirect suppliers or any third party involved in making or compiling any Information (collectively, with MSCI, the "Information Providers") and is provided for informational purposes only. The Information may not be modified, reverse-engineered, reproduced or redisseminated in whole or in part without prior written permission from MSCI. All rights in the Information are reserved by MSCI and/or its Information Providers.

The Information may not be used to create derivative works or to verify or correct other data or information. For example (but without limitation), the Information may not be used to create indexes, databases, risk models, analytics, software, or in connection with the issuing, offering, sponsoring, managing or marketing of any securities, portfolios, financial products or other investment vehicles utilizing or based on, linked to, tracking or otherwise derived from the Information or any other MSCI data, information, products or services.

The user of the Information assumes the entire risk of any use it may make or permit to be made of the Information. NONE OF THE INFORMATION PROVIDERS MAKES ANY EXPRESS OR IMPLIED WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE INFORMATION (OR THE RESULTS TO BE OBTAINED BY THE USE THEREOF), AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, EACH INFORMATION PROVIDER EXPRESSLY DISCLAIMS ALL IMPLIED WARRANTIES (INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF ORIGINALITY, ACCURACY, TIMELINESS, NON-INFRINGEMENT, COMPLETENESS, MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE) WITH RESPECT TO ANY OF THE INFORMATION.

Without limiting any of the foregoing and to the maximum extent permitted by applicable law, in no event shall any Information Provider have any liability regarding any of the Information for any direct, indirect, special, punitive, consequential (including lost profits) or any other damages even if notified of the possibility of such damages. The foregoing shall not exclude or limit any liability that may not be applicable law be excluded or limited, including without limitation (as applicable), any liability for death or personal injury to the extent that such injury results from the negligence or willful default of itself, its servants, agents or sub-contractors.

Information containing any historical information, data or analysis should not be taken as an indication or guarantee of any future performance, analysis, forecast or prediction. Past performance does not guarantee future results.

The Information should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. All Information is impersonal and not tailored to the needs of any person, entity or group of persons.

None of the Information constitutes an offer to sell (or a solicitation of an offer to buy), any security, financial product or other investment vehicle or any trading strategy.

It is not possible to invest directly in an index. Exposure to an asset class or trading strategy or other category represented by an index is only available through third party investable instruments (if any) based on that index. MSCI does not issue, sponsor, endorse, market, offer, review or otherwise express any opinion regarding any fund, ETF, derivative or other security, investment, financial product or trading strategy that is based on, linked to or seeks to provide an investment return related to the performance of any MSCI index (collectively, "Index Linked Investments"). MSCI makes no assurance that any Index Linked Investments will accurately track index performance or provide positive investment returns. MSCI Inc. is not an investment adviser or fiduciary and MSCI makes no representation regarding the advisability of investing in any Index Linked Investments.

Index returns do not represent the results of actual trading of investible assets/securities. MSCI maintains and calculates indexes, but does not manage actual assets. Index returns do not reflect payment of any sales charges or fees an investor may pay to purchase the securities underlying the index or Index Linked Investments. The imposition of these fees and charges would cause the performance of an Index Linked Investment to be different than the MSCI index performance.

The Information may contain back tested data. Back-tested performance is not actual performance, but is hypothetical. There are frequently material differences between back tested performance results and actual results subsequently achieved by any investment strategy.

Constituents of MSCI equity indexes are listed companies, which are included in or excluded from the indexes according to the application of the relevant index methodologies. Accordingly, constituents in MSCI equity indexes may include MSCI Inc., clients of MSCI or suppliers to MSCI. Inclusion of a security within an MSCI index is not a recommendation by MSCI to buy, sell, or hold such security, nor is it considered to be investment advice.

Data and information produced by various affiliates of MSCI Inc., including MSCI ESG Research LLC and Barra LLC, may be used in calculating certain MSCI indexes. More information can be found in the relevant index methodologies on [www.msci.com](http://www.msci.com).

MSCI receives compensation in connection with licensing its indexes to third parties. MSCI Inc.'s revenue includes fees based on assets in Index Linked Investments. Information can be found in MSCI Inc.'s company filings on the Investor Relations section of [www.msci.com](http://www.msci.com).

MSCI ESG Research LLC is a Registered Investment Adviser under the Investment Advisers Act of 1940 and a subsidiary of MSCI Inc. Except with respect to any applicable products or services from MSCI ESG Research, neither MSCI nor any of its products or services recommends, endorses, approves or otherwise expresses any opinion regarding any issuer, securities, financial products or instruments or trading strategies and MSCI's products or services are not intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Issuers mentioned or included in any MSCI ESG Research materials may include MSCI Inc., clients of MSCI or suppliers to MSCI, and may also purchase research or other products or services from MSCI ESG Research. MSCI ESG Research materials, including materials utilized in any MSCI ESG Indexes or other products, have not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body.

Any use of or access to products, services or information of MSCI requires a license from MSCI. MSCI, Barra, RiskMetrics, IPD and other MSCI brands and product names are the trademarks, service marks, or registered trademarks of MSCI or its subsidiaries in the United States and other jurisdictions. The Global Industry Classification Standard (GICS) was developed by and is the exclusive property of MSCI and Standard & Poor's. "Global Industry Classification Standard (GICS)" is a service mark of MSCI and Standard & Poor's.

MIFID2/MIFIR notice: MSCI ESG Research LLC does not distribute or act as an intermediary for financial instruments or structured deposits, nor does it deal on its own account, provide execution services for others or manage client accounts. No MSCI ESG Research product or service supports, promotes or is intended to support or promote any such activity. MSCI ESG Research is an independent provider of ESG data, reports and ratings based on published methodologies and available to clients on a subscription basis. We do not provide custom or one-off ratings or recommendations of securities or other financial instruments upon request.

For information about how MSCI collects and uses personal data, please refer to our Privacy Notice at <https://www.msci.com/privacy-pledge>.