



European Green Bonds Assessment Methodology

THINK SMART  ACT DIFFERENT

Sommaire

<u>00. Introduction</u>	<u>3</u>
<u>01. General audit and certification principles : Nexialog standards and methodology</u>	<u>6</u>
<u>02. Pre-issuance and post-issuance reviews</u>	<u>7</u>
<u>03. Verification of alignment</u>	<u>10</u>
<u>04. ESG due diligence</u>	<u>13</u>
<u>05. Conclusion</u>	<u>15</u>
<u>06. Annex : Check-list</u>	<u>16</u>

INTRODUCTION

EuGBs are issued under the Regulation (EU) 2023/2631 of the European Parliament and Council, dated 22 November 2023 on European green bonds (the "Regulation"). The objective of the Regulation is to support the transition towards a climate-neutral, sustainable, energy- and resource-efficient, circular and fair economy.

Issuances with an EuGB designation rely on the detailed criteria of the EU taxonomy to define green economic activities, ensure levels of transparency in line with market best practice and enable supervision of companies carrying out pre- and post-issuance reviews at European level. The Regulation has identified mandatory reporting templates to be used by issuers and external reviewers of EuGBs; we will reference these templates in our reports as a reviewer.

Scope

The certification of a **European Green Bond** in alignment with the **EU Green Bond Standard (EuGBs)** and the **EU Taxonomy**, as defined by the European Securities and Markets Authority (**ESMA**), requires a detailed, structured process. This process ensures that the bond issuance is transparent, credible, and in compliance with EU regulations. This report describes the methodology applied by Nexialog to conduct reviews of European green bonds issued globally. The following reviews may be undertaken:

- I. pre-issuance review;
- II. post-issuance review; and
- III. impact report review.

INTRODUCTION

A Nexialog review represents a point-in-time assessment and could lead to multiple point-in-time assessments. Each assessment will be made public on our website using our proprietary template.

Before any EuGB issuance, we will provide a pre-issuance review, focusing on the analysis of the factsheet and prospectus and the intended allocation of the bond's proceeds.

Once the green bond is issued and the proceeds are used, we will generate a post-issuance review, assessing alignment of the issuance with the EuGB factsheet and with the Regulation.

Upon full allocation of the bond proceeds, we will also provide an impact report review, assessing the impact achieved by the bond(s) and the alignment of the bond issuance(s) with the broader environmental strategy of the issuer, among else.

Alignment

A significant part of the assessment involves evaluating the EU taxonomy alignment of the bond's use of proceeds (UoP) throughout the life of the bond, as laid out in the EuGB factsheet that is prepared by the issuer ahead of the bond issuance.

INTRODUCTION

An economic activity is considered environmentally sustainable when it:

- contributes substantially to one or more of the environmental objectives (EOs);
- complies with substantial contribution criteria (SCC);
- does not significantly harm any of the environmental objectives; and
- is carried out in compliance with minimum safeguards (MSs).

Proceeds can be used only for certain pre-defined purposes and can be allocated to:

- fixed assets (that are not financial assets);
- capex;
- opex;
- financial assets;
- assets and expenditures of households; and
- public expenditures related to sovereigns and other similar entities (i.e. states, regional or municipal entities).

1. General audit and certification principles : Nexialog standards and methodology


To demonstrate Nexialog Consulting's ability to certify green bonds, we have built an internal audit-based set of norms and principles to ensure credibility and integrity in the certification process.

- **Independence** : The Nexialog certification team is aware that independence is fundamental to maintaining the credibility of the certification process. To ensure that **no conflicts of interest is at stake** and that Nexialog does not have financial or personal interests that could influence the audit opinion, we will involve **second level of validation** performing with anonymous data and ensuring the certification process has been performed thoroughly, correctly and with full transparency.
- **Objectivity & unbiased judgment**: Nexialog will provide an impartial assessment of whether the proceeds from the green bonds align with the environmental goals outlined in the bond's documentation. The Nexialog certification team will only act in accordance with ESMA's European Union Green Bonds Standards. Nexialog certification team provides a **very good level of expertise** in the sustainable finance area.
- **Ongoing monitoring**: Nexialog experts will ensure the allocation of proceeds and bond's documentation are aligned with EU GBS throughout **the full life of the product**.

2. Pre-Issuance Review Methodology

Our methodology consists in performing the following verification and analysis steps:


1. Identifying the entity's persons involved in the process of EU GB i) creation, ii) structuring and iii) distribution;
2. Conducting interviews with the entity's persons responsible for preparing the factsheet and prospectus and, other relevant marketing materials;
3. Conducting interviews with the entity's persons responsible for selecting the financed projects and activities and defining the bonds' ESG objectives;
4. Where applicable, conducting interviews with the entity's persons responsible for internal control or audit procedures and risk management methodologies;
5. Assessing the consistency of the procedures used by the entity to select the financed projects and activities;
6. Assessing the consistency of the procedures used by the entity to build the regulatory and marketing materials, to ensure relevance, consistency, completeness, reliability, neutrality, and understandability and considering industry best practices, where appropriate;
7. For all projects and activities intended to be financed by the EU GB covered by the regulatory and marketing materials documents, considering supporting verification and conducting interviews to assess compliance with the alignment criteria defined in the Taxonomy regulation 2020/852 and its associated delegated acts;

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8. Obtaining an understanding of the entity's internal controls related to the building of the regulatory and marketing materials documents in order to define procedures that are appropriate in the circumstances, but not for the purpose of expressing a conclusion on the robustness of the internal control of the entity ;
 9. Assessing the compliance of the regulatory and marketing materials documents with Articles 4 to 8 and Annex I of Regulation 2023/2631 ;
 10. Corroborating the information disclose in the regulatory and marketing materials documents through interviews with management and cross-checking with additional relevant supporting documents.

3. Post-Issuance Review Methodology

The following are all performed after bond's issuance and annually.

1. Identifying the entity's persons responsible for building and writing the bond's annual report (and other annual information / marketing documents about the bond's financed projects or activities)
2. Conducting interviews with the entity's persons responsible for following-up the financed projects and activities and the bonds' ESG performances ;
3. Where applicable, identify the entity's persons responsible for internal control or audit procedures and risk management methodologies about the bond's follow-up, and conducting individual or collective interviews with them;

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4. Assessing the consistency of the procedures used by the entity to follow-up the projects and activities ESG characteristics and ESG objectives' achievements ;
 5. Assessing the consistency of the procedures used by the entity to build annual documents, to ensure relevance, consistency, completeness, reliability, neutrality, and understandability and considering industry best practices, where appropriate ;
 6. For all projects and activities intended to be financed by the EU GB covered by the annual reports, considering supporting verification and conducting interviews to check that the bond still complies with the alignment criteria defined in the Taxonomy regulation 2020/852 and its associated delegated acts ;
 7. Obtaining an understanding of the entity's internal controls related to the building of annual documents in order to define procedures that are appropriate in the circumstances, but not for the purpose of expressing a conclusion on the robustness of the internal control of the entity ;
 8. Assessing the compliance of the annual reports with Articles 4 to 8 and Annex I of the Regulation ;
 9. Corroborating the information disclose in the annual reports through interviews with management and cross-checking with additional relevant supporting documents.

3. Focus on the verification of Alignment with the EU Taxonomy (Use of Proceeds)

One of the sub-step in the certification process is to verify that the **use of proceeds** is fully aligned with the **EU Taxonomy** and adheres to the criteria set forth by the EU Green Bond Standard. This ensures that the funded projects meet the environmental objectives outlined by the EU and comply with regulations on sustainable finance.

Step 1: **Alignment** with EU Taxonomy

- **Assessment of Eligible Green Projects:** Each project financed by the Green Bond must be reviewed through the [Taxonomy Navigator](#) to ensure it meets the **EU Taxonomy criteria** for environmental sustainability. This includes verifying that the projects contribute to at least one of the following objectives:
 - **Climate change mitigation:** Projects that reduce greenhouse gas emissions, such as renewable energy, energy efficiency, and low-carbon transport.
 - **Climate change adaptation:** Projects that improve resilience to climate impacts, such as flood defenses and climate-resilient infrastructure.
 - **Sustainable use and protection of water and marine resources:** Projects related to water management, pollution control, and marine conservation.
 - **Transition to a circular economy:** Projects that reduce waste, promote recycling, and support the sustainable use of resources.

- **Pollution prevention and control:** Projects that reduce emissions, manage waste, and prevent contamination of air, water, and soil.
- **Protection and restoration of biodiversity:** Projects that enhance ecosystems and promote biodiversity conservation.
- **Substantial Contribution to Taxonomy Objectives:** The external validation body must ensure that each project financed by the Green Bond provides a substantial contribution to one or more of the Taxonomy objectives, based on the specific criteria outlined by the EU Taxonomy Regulation, **and reach the total 85% alignment threshold.**

Step 2: Do No Significant Harm (DNSH) Assessment

- **Assessment of DNSH Criteria:** The projects financed by the Green Bond must be assessed to ensure they do no significant harm to other environmental objectives, even if they contribute positively to one Taxonomy objective. This involves an evaluation to ensure that the projects:
 - Do not lead to significant environmental damage, such as harm to ecosystems or biodiversity.
 - Comply with minimum safeguards and regulations to avoid violating the EU's social and environmental standards.

Step 3: Alignment with Social Safeguards

- **Social Safeguards:** The external validator should confirm that the use of proceeds aligns with **EU social safeguards** to ensure that the projects respect human rights and adhere to international labor standards.

This includes checks for social impacts that may arise from the projects (e.g., impacts on local communities, workers' rights, and land use).

Step 4: Verification of **Documentation (Issuance description programme)**

- **Documentation Review:** The external validation body must verify that the documentation provided by the issuer clearly outlines the **use of proceeds** and demonstrates alignment with the Taxonomy and EU GBS. This includes reviewing project descriptions, environmental assessments, and compliance with reporting obligations.

Step 5: Third-Party Validation of the **Use of Proceeds**

- The external validation body must independently review and validate that the **allocated proceeds** are used exclusively for green projects that meet the EU Taxonomy criteria. The body will also confirm that funds have been used according to the original intent described in the Green Bond Framework, ensuring no misallocation of funds.

4. ESG Due Diligence

ESG due diligence plays a vital role in assessing the broader sustainability of the Green Bond issuance and the underlying projects, covering **Environmental, Social, and Governance** factors. The external validation body must conduct comprehensive ESG due diligence to ensure that the bond issuance meets not only environmental objectives but also social and governance principles. This process includes:

Step 1: ESG Due Diligence

- **Environmental Risk Assessment:** Ensure that the projects financed by the Green Bond do not cause unintended negative environmental impacts. This includes evaluating the lifecycle impacts of the projects, assessing risks related to resource consumption, waste generation, and long-term environmental sustainability.
- **Carbon Footprint Analysis:** Evaluate the carbon footprint of the financed projects and ensure that they align with climate goals, such as net-zero emission targets. This includes reviewing carbon emissions reduction metrics and how the projects contribute to decarbonization efforts.

Step 2 (**not mandatory**): Social Due Diligence

- **Community Impact Assessment:** Evaluate the potential social impacts of the financed projects, particularly in local communities. This includes ensuring that projects respect local communities' rights and promote social inclusion.

- **Labor and Human Rights Compliance:** Ensure that the projects financed by the Green Bond adhere to international labor standards and do not violate workers' rights. This may involve examining conditions related to fair wages, worker safety, and the absence of child or forced labor.
- **Stakeholder Engagement:** Ensure that the issuer has engaged with relevant stakeholders (including local communities and affected groups) and that their concerns and interests have been taken into account in the project design and execution.

Step 3 **(not mandatory):** Governance Due Diligence

- **Corporate Governance Evaluation:** Review the issuer's governance structures to ensure they align with international best practices, such as transparency, accountability, and ethical conduct. This includes assessing the board's oversight of the bond issuance, decision-making processes, and the issuer's commitment to sustainability.
- **Anti-Corruption and Anti-Bribery Policies:** Ensure that the issuer has strong policies and practices in place to prevent corruption and bribery, particularly in the execution of projects funded by the Green Bond.
- **Compliance with EU Regulations:** Ensure that the issuer complies with EU regulations on corporate governance, environmental sustainability, and reporting.

CONCLUSION

The certification of a European Green Bond under the **EU Green Bond Standard (EU GBS)**, including C&E due diligence, involves a structured process that verifies the climate & environmental aspects of the bond and its underlying projects. The process includes ensuring proper communication, alignment with the EU Taxonomy, verification of the use of proceeds, and comprehensive ESG due diligence. Through this robust methodology, external validation guarantees that the Green Bond is truly green and sustainable, and adheres to the highest standards of environmental practices, providing confidence to investors and stakeholders.

ANNEX: VALIDATION GRID

PRE AND POST-ISSUANCE

<input type="checkbox"/>	The issuer has mentioned the EU GB (or European Green Bond) standards and naming in all communication and public informational documents and disclosures
<input type="checkbox"/>	The category of use of proceeds are compliant with Article 4 of the EU GB regulation
<input type="checkbox"/>	The issuer published a CapEx plan and this plan is compliant with Article 7 of the EU GB regulation
<input type="checkbox"/>	The issuer has described all the green proceeds in an understandable fashion for all stakeholders including retail stakeholders, and explained why the financed project has a positive environmental or climate impact
<input type="checkbox"/>	The percentage of Taxonomy-alignment of all green proceeds is mentioned
<input type="checkbox"/>	The Taxonomy-alignment of green proceeds has gone through a technical screening as defined in Article 8 of the EU GB regulation
<input type="checkbox"/>	The issuer has provided full transparency about the collection of all required data linked to sustainability features of the financed project
<input type="checkbox"/>	The bond's use of proceeds are aligned with EU Taxonomy at or above the 85% threshold
<input type="checkbox"/>	The bond's use of proceeds will be allocated before the maturity date of the product (at or above the 85% threshold)
<input type="checkbox"/>	The issuer has built an impact report after full allocation of proceeds according to Article 12 of the EU GB regulation
<input type="checkbox"/>	The issuer has published a prospectus according to Article 14 of the EU GB regulation
<input type="checkbox"/>	The publication on the issuer's website and the notification to ESMA have been done according to Article 15 of the EU GB regulation
<input type="checkbox"/>	After 2030, all information related to the bond are available on the European single access point
<input type="checkbox"/>	An second independent review of this certification process has been performed
<input type="checkbox"/>	This audit trail has been performed with adequate tools and from staff with adequate expertise with regard to Taxonomy-aligned projects and bonds' issuances
<input type="checkbox"/>	This audit trail has been performed independently, with no potential conflict of interest

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[1] EU Taxonomy <https://ec.europa.eu/sustainable-finance-taxonomy/>.

[2] ESMA's EU GB standards [The European green bond standard – Supporting the transition - European Commission](#)

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