



Green Bond Guidelines 1 - Issuing Process

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The first “green bonds” in Korea were issued by the Export-Import Bank of Korea in 2013. Since then, the issuances of green bonds have mostly been led by public companies with high credit ratings targeting offshore markets. However, interest in “green finance” products in the Korean domestic market has been growing due to (i) the need of domestic companies to fund investments in eco-friendly, low-carbon businesses, (ii) the increase in “socially responsible investments” by public pension funds, including the National Pension Fund of Korea, and (iii) the Korean government’s focus on related policies such as the “Green New Deal Plan” announced in July 2020 and the “Declaration of 2050 Carbon Neutrality” announced in December 2020. Despite the growing interest, the absence of clear-cut guidelines regarding the domestic issuance of green bonds have concerned market participants, who have consistently been emphasizing the need for domestic issuance guidelines for green bonds.

In response to such demand, the Green Bond Guidelines (the “**Guidelines**”) were announced in December 2020 as a collaborative effort among the Ministry of Environment, the Financial Services Commission, the Korea Environmental Industry & Technology Institute and the Korea Exchange. Despite the lack of binding power, an understanding of the Guidelines is still important as we expect the Guidelines to become the common standard among market participants in relation to the issuance and evaluation of, and investments in, green bonds in Korea.

<Main Features of the Guidelines>

Definition of Green Bonds

The Guidelines define green bonds as bonds (i) the proceeds of which are used for “green projects” that meet six environmental objectives (as set out in the following paragraph) and (ii) which satisfy the four core components of the Green Bond Principles formulated by the International Capital Market Association (the “**GBP**”), which consist of (a) use of proceeds, (b) process for project evaluation and selection, (c) management of proceeds and (d) reporting.

The six environmental objectives for green projects are: (a) climate change mitigation, (b) climate change adaptation, (c) conservation of natural resources, (d) protection of biodiversity, (e) pollution prevention and control and (f) transition to a circular economy.

Green Bond Framework

The Guidelines recommend issuers of green bonds to establish their own internal Green Bond Frameworks (“**GBFs**”) and manage the issuance of green bonds in accordance with such framework. In general, GBFs should consist of the following sections which represent the main components of the GBP:

- **Overview of green bond issuance:** This section should set out the purpose of issuance, the issuer’s green management strategy and how such strategies are linked to environmental improvement objectives in detail.
- **Use of proceeds:** The proceeds of green bonds should be used for green projects that contribute to environmental improvements by supporting at least one of the six environmental objectives described above, taking into account whether there are conflicts with other public policy objectives. For this reason, the Guidelines recommend issuers to determine whether their use of green bonds violate domestic environmental laws as well as non-environmental policies, in particular human rights policies, based on the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the International Labour Organization Declaration on Fundamental Principles and Rights at Work.

Currently, acceptable green projects must fall within the 10 categories of green projects as set out in the GBP. The current classification system is expected to be replaced by a classification system specialized for the Korean market that is being developed by the Ministry of Environment, which aims to determine whether an economic activity falls within the environmental objectives (the “**K-Taxonomy System**”).

- **Process for project evaluation and selection:** Issuers of green bonds should notify their investors through their GBFs of the issuer’s (i) environmental sustainability objectives, (ii) process through which it determines whether a project falls within the categories of acceptable green projects and (iii) process for evaluating and managing a project’s potential environmental and social risks as well as standards for evaluation and exclusion.
- **Management of proceeds:** Issuers of green bonds should ensure that the proceeds of green bond issuance are used exclusively for green projects by managing and tracking the use of such net proceeds (or an amount equivalent to the net proceeds) through internal control procedures.
- **Reporting:** Issuers of green bonds should prepare reports containing recent information on their use of issuance proceeds and an analysis on the expected environmental improvements resulting from such use (“**Proceed Allocation and Impact Reports**”).

External Review

The Guidelines also recommend an external review of green bonds in accordance with the following:

- **Pre-issuance:** Issuers of green bonds should receive external reviews in order to assess whether their GBFs are consistent with the four main components of the GBP.

- **Post-issuance:** Issuers of green bonds should receive external reviews on their Proceed Allocation and Impact Reports to examine their management and use of proceeds and measure the degree of positive impact on the environment from the relevant issuance.

<Implications>

The lack of clear-cut guidance on what investments constitute environmental investments had caused uncertainties in the Korean market despite the growing number of so called “ESG” investments by institutional investors. The announcement of the Guidelines is significant because it has provided market participants with the standards and guidance regarding environmental investments. We believe that the specific examples of green projects for the Korean market based on the GBP which are set out in the Guidelines will be particularly useful in determining which projects conform with environmental objectives.

The K-Taxonomy System is expected to be announced in the first half of 2021 by the Ministry of Environment. As the Guidelines will be revised following the introduction of the K-Taxonomy System, we believe that the announcement and implementation of the K-Taxonomy System should be closely monitored as well.

Ever since advising the Export-Import Bank of Korea in connection with the first green bond issuance in Korea, we have been providing legal advice to numerous clients in relation to the issuance of green bonds as well as other ESG bonds and ESG investments, including renewable energy investments. We will be providing updates through our newsletters on the introduction of the K-Taxonomy System as well as the resulting amendments to the Guidelines.

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