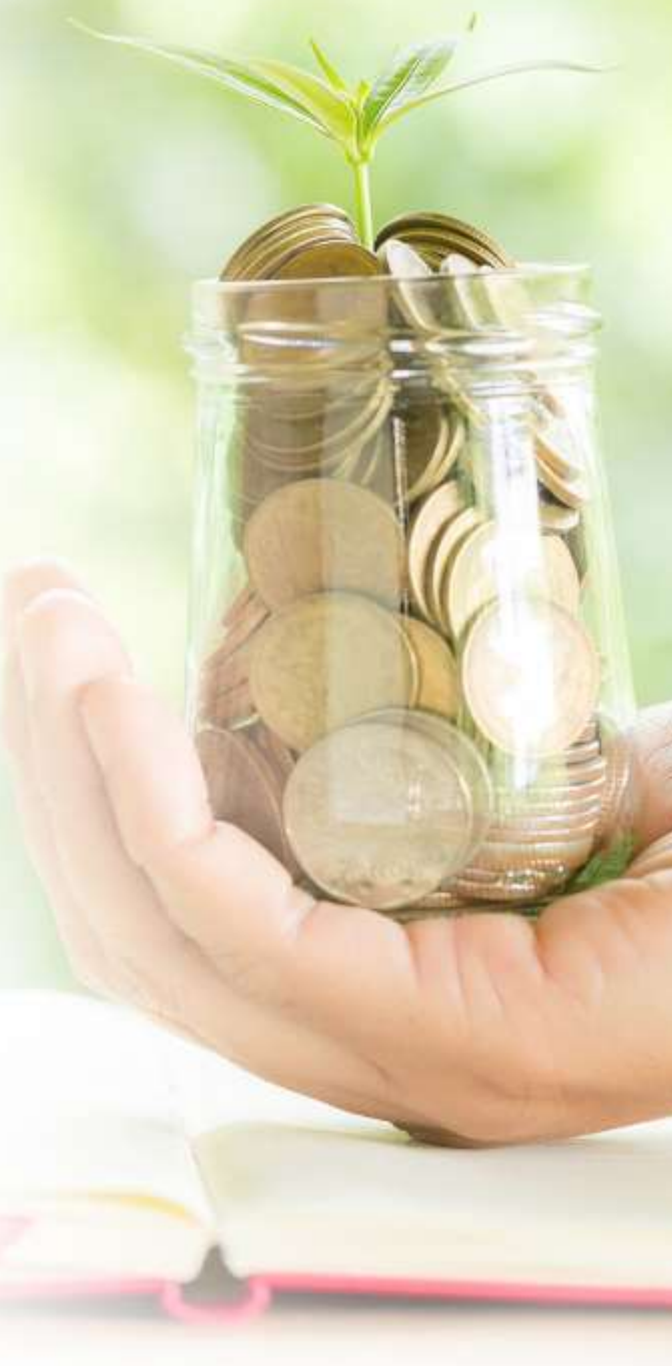
Issuance of Green Bonds in Mauritius.



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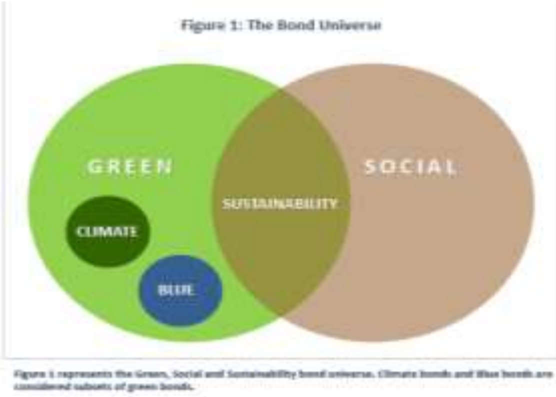
ISSUANCE OF GREEN BONDS IN MAURITIUS

With a view to diversifying the financial services sector in Mauritius, it had been announced during the 2020/21 National Budget that a green and blue bond framework would be introduced by the Bank of Mauritius (the "**BOM**"). The BOM subsequently came up with a "Guide for the issue of sustainable bonds in Mauritius" on 7 June 2021. The Guide for the issue of sustainable bonds in Mauritius outlines the process to be adhered to during the pre-issuance, issuance and post-issuance phases of a sustainable bond, followed by the listing of the said bond on a Securities Exchange in Mauritius and possible regulatory sanctions on a potential issuer in case of non-compliance.



Source: Guide for the issue of Sustainable Bonds in Mauritius

In addition to the Guide for the issue of sustainable bonds in Mauritius, the Mauritius Financial Services Commission (the "**FSC**"), published on 23 December 2021 their guidelines in respect of corporate and green bonds issuance in Mauritius, under section 7(1)(a) of the Financial Services Act (the "**FSC Guidelines**"). The FSC guidelines, in conformity with international standards and the recommendations of the International Capital Market Association's (ICMA) Green Bond Principles, further amplifies the legal & supervisory requirements and obligations that potential corporate and green bonds issuers need to comply with.

An awareness session on the FSC Guidelines was also held on 25 January 2022 in presence of various key persons of the financial services sector, where they commended the initiative being undertaken with regard to sustainable means of financing.

The Honourable Mahen Kumar Seeruttun, Minister of Financial Services and Good Governance, stated that *"the decision to issue green bonds reflects the Government's strong commitment to accelerate investment in clean projects which was announced in the 2020/21 National Budget."* He emphasized on the need to boost green investment in Mauritius and added that required policies are being implemented to increase liquidity and attract investors towards sustainable finance. *"Green finance will play a significant role for Mauritius going forward and it is imperative and we have no choice but to go green", he concluded.*

As highlighted by Mr. Dhanesswurnath Thakoor (the Chief Executive of the FSC) during the same event, the FSC Guidelines mark another milestone in making Mauritius a flexible capital market destination, thus paving the way to the sophistication of its offerings as an international financial center of repute and substance.

Benefits of Green Bonds

- *Provide an additional source of sustainable financing and improve investor diversification*
- *Platform to engage in good practices* and hence enhance issuer reputation
- *Hedge against climate change risk*
- *Potential higher returns on investment in addition to social and environmental benefits*
- *Increased transparency and accountability on use and management of funds*
- *Pricing benefits for issuers as a results of increasing investor demand and limited supply*

Who is an eligible issuer of green bonds?

As per the FSC Guidelines, an eligible issuer may be:

- A reporting issuer as defined under section 86 of the Securities Act 2005 ("**SA**") [*(a) an issuer who, by way of a prospectus, has made an offer of securities either before or after the commencement of the SA; or (b) who has made a takeover by way of an exchange of securities or similar procedure*] and duly registered with the FSC; or
- an 'issuer' as defined under section 2 of the SA [*a person or any other entity that issues, has issued or is going to issue securities*] and satisfying the following requirements:

a) Net Assets
The company has, at any point in time, not earlier than 18 months prior to the proposed issue of corporate bonds, net assets of a total value exceeding MUR 100 million or its equivalent, as certified by its external auditor(s) and reflected in its audited financial statements.

b) Track Record
The company has been in existence for at least three years and:
(i) Has positive net profits after tax over the last twelve months' financial periods preceding the application for the issue; or
(ii) Has a Debt/EBITDA ratio for the last two financial periods preceding the issue maintained at a weighted average of 4 times or less.

c) Credit History
The company does not have a history of recurrent default/late payments based on its MCIB (Mauritius Credit Information Bureau) or any relevant reports at the time of issuance.

Corporate Bond

A corporate bond refers to a type of debt security, whereby investors lend money to an organization issuing the bond and in return, receive interest until the principal amount is paid upon the maturity date. Such types of investment have an attractive risk-return profile in the long-term and are being more and more considered as a prime source of funds for companies. According to The Financial Times, companies raised more than USD 100 bn on the debt market globally via corporate bonds during the first week of 2022. Notwithstanding the fact that the corporate bond market is dominated by the United States, mostly non-financial institutions based in Japan, the United Kingdom, France and Korea amongst others, shifted to corporate bonds as a means of raising capital over the past years. This trend has been driven by the support from respective local authorities in most countries through the implementation of an attractive legal and regulatory framework to encourage corporate debt funding.

Green Bond

A green bond is a type of debt instrument, which can be differentiated from a conventional bond through its use of proceeds. Capital raised from the issuance of green bonds is solely used for green projects with environmental benefits and can help mitigation of climate change risks. First issued in 2007 by the European Investment Bank, green bonds have since been issued worldwide by a variety of financial institutions. In Europe only, the size of the developed green bond market was about USD 156 bn[1]. The green bond market fundamentally emerged due to the need to address concerns over global warming and climate change and same has been flourishing since the last decade, with investors more inclined towards promoting sustainable investments. In fact, the World Bank has issued around USD 17 bn equivalent in green bonds through over 200 bonds in 24 currencies since 2008 (as of January 2022)[2]. As per Climate Bonds Initiative (Climate Bonds Initiative is an international organization promoting investment in projects required for a rapid transition to a low carbon and climate resilient economy), the long-established global milestone of USD 1 Trillion annual green debt issuance is on track to be achieved by either end of 2022 or 2023 latest and the next target is being set to issuing USD 5 Trillion annually by 2025.

Main drivers behind the steady growth in green bond issuance

- *Global Green Initiatives such as Paris agreement on Climate Change and UN Sustainable Development Goals act as an accelerator*
- *Increased awareness on sustainable business practices*
- *Enhanced reputation by strengthening risk management to environmental issues*
- *Aligning investment and environmental objectives*
- *Growing investors demand due to low volatility and positive returns*

[1] The green bond market in Europe- statistics & facts, Statista Research Department.

[2] World Bank.

Key Requirements

The key requirements set out in the FSC guidelines have been outlined in the table below:

Criteria	Corporate Bonds & Green Bonds
Method of Issue	• **Public Offer**- need to register a prospectus with the FSC and satisfy the conditions set forth in the SA and the Securities (Public Offer) Rules 2007; or • **Preferential Offer** (through a private placement, made only to sophisticated investors or only to related corporations of the issuer) - issuers should comply with the Securities (Preferential Offer) Rules 2017.
Eligible Investors	Companies or other persons
Form	• Issued in the form of debentures under the Companies Act 2001 and held in dematerialised form. • Must be denominated in MUR, USD, Euro or in any other currency acceptable by the FSC.
Tenor	Issued in maturities of more than 365 days. (for corporate bonds, though the maturity for green bonds is not specified).
Mode of issue	**Minimum Size of Issue** – MUR 100 million or its equivalent in other currency **Minimum Issue of Lots** – MUR 1 million issued under preferential offer and MUR 100,000 issued through public offer. The bonds should be issued at a price that is near to or at the par value. **Coupon Rate** – determined by the issuer taking into consideration the prevailing Government Bond Yield Curve and any other relevant market rates and risk premium.
Utilisation of Proceeds	Strictly in accordance with the purposes disclosed. It should be noted that green bonds may only be used for the funding of qualifying green projects, including, but not limited to: • Renewable and sustainable energy; • Energy efficiency; • Pollution prevention and control; • Terrestrial and aquatic biodiversity conservation; • Clean transportation; • Sustainable waste management including recycling, efficient disposal of wastage; • Climate change adaptation; • Green buildings; • Environmentally sustainable management of living natural resources and land use; or • Eco-efficient and/or circular economy adapted products, production technologies and processes.
Underwriting	May be underwritten by a licensed Investment Dealer and adequate disclosures regarding underwriting arrangements should be disclosed in the offer document.
Trading	Unlisted bonds can be traded Over The Counter and the settlement should not exceed T+3. Listed bonds are traded in accordance with the relevant rules of the Securities Exchange.
Buyback	An Issuer may buy back corporate bonds from current holders before maturity, subject to the approval of its Board of Directors and the buyback of a corporate bond shall take place through the Issuing & Paying Agent ("**IPA**").
Transfer	Corporate bonds and green bonds are transferable and the Issuer shall recognize the investor whose name is last registered in the books of the IPA.
Redemption	On maturity, the IPA shall receive payment from the Issuer and shall effect payment to the bondholders.

Key Requirements (continued)

Appointment and duties of functionaries	An issuer must appoint an IPA and a corporate finance adviser while also ensuring that its relationship with such functionaries is set out in a written agreement. The duties of the IPA and the functions of the corporate finance adviser are detailed in the FSC Guidelines.
Continuing disclosure obligations	An issuer is expected to fulfill certain responsibilities, as detailed below: • After being listed on the securities exchange, the issuer must comply with the continuous disclosure obligations set out in the SA and the relevant rules of the securities exchange. • The following should be immediately published on the securities exchange, by the issuer: i. any issuance of a new tranche namely including details like its credit rating, whether a fixed or floating rate is being paid, its maturity, the actual rate at issue and the spread over the repo rate; ii. any change in the terms and conditions; iii. any redemption or cancellation; and iv. any occurrence of an event of default. • The issuer must inform the maturity date of each issuance at least one month before. • In the case of an early redemption, bondholders must be informed of the relevant details of such redemption. • The issuer is under obligation to provide any information that may affect the pricing of the bonds to the FSC. • Whenever the bonds remain outstanding, the issuer must, on a yearly basis, submit the status of the outstanding bonds, within 30 days of delay, to the FSC.

Conditions specific to Green Bond Issuance

❖ Restriction on securitization

- Even though a person does not meet the definition of reporting issuer or issuer, he/she may issue green bonds only to sophisticated investors*. A green bond issued under this condition shall not be issued to retail investors until such time the requirements of either an issuer or reporting issuer are met.
- No person shall issue a derivative instrument which has a green bond as underlying asset issued by an issuer that does not meet the definition of an issuer or reporting issuer without the approval of the Commission, unless the derivative instrument is issued to sophisticated investors only.

* As per the Securities (Amendment) Act 2021, "sophisticated investor" means— (a) the Government of Mauritius; (b) a statutory authority or an agency established by an enactment for a public purpose; (c) a company, all the shares of which are owned by the Government of Mauritius or a body specified in paragraph (b); (d) the Government of a foreign country, or an agency of such Government; (e) a bank; (f) a collective investment scheme; (g) a CIS manager; (h) a pension fund or its management company; (i) a closed-end fund; (j) an insurer; (k) an investment adviser; (l) an investment dealer; (m) an investor that warrants, at the time of entering into a securities transaction, that– (i) its ordinary business or professional activity includes the entering into securities transactions, whether as principal or agent; (ii) in case he is a natural person, his individual net worth or joint net worth with his spouse exceeds one million USD, or its equivalent in another currency; or (iii)it is an institution with a minimum amount of assets under discretionary management of 5 million USD, or its equivalent in another currency; or (n) a person declared by the Commission to be a sophisticated investor.

❖ Additional Requirements

- Appointment of an **independent external reviewer**

The independent external review should carry out a pre-issuance review on the credentials of the projects to be funded by the green bonds and the issuer's compliance with the principles of the FSC Guidelines and produce a report clearly stating the procedures performed as part of their review and the conclusion reached.

In case of a preferential offer, the Pre-issuance Review Report should be made available at least 14 business days prior to the issuance whilst for a public offer, this Pre-issuance Review Report should form part of the offer document.

- **Green Bond Progress Report**

Include a Green Bond Progress Report in its annual report to ensure the ongoing transparency and regular disclosure of information about the status of the green bond proceeds. The Green Bond Progress Report should include the following information at minimum:

i. A list of projects to which the green bond proceeds have been allocated;
ii. A description of each project and the corresponding amount disbursed;
iii. Specifying which project have been financed and refinanced;
iv. The environmental impact of the projects;
v. The qualitative and where feasible, the quantitative, key performance indicators used to measure the environmental impact of the projects;
vi. The underlying methodology or assumptions used in preparing the key performance indicators;
vii. Confirmation of the ongoing eligibility of the projects as qualifying green projects;
viii. The balance and type of temporary placement for the unallocated green bond proceeds;
ix. The expected remaining timeframe for completion of the projects; and
x. Where confidentiality agreements, competitive considerations or a large number of underlying projects limit the amount of details that can be disclosed, the information should be presented in generic terms or on an aggregated portfolio basis. However, the information provided should be sufficient to enable investors and the Commission to formulate their opinions on the green credibility of the projects.

- **Bond Memorandum**

Preparation of a Green Bond Memorandum, which should be part of the offer document. The Green Bond Memorandum is expected to be the main source of disclosure for issuers to demonstrate the greenness of their proposed projects and their application of the principles set out in these Guidelines for the proposed issue.

- **No greenwashing**, i.e making false or misleading claims about the green credentials of financial products.

Overview of the process for issuing a green bond

1. **Market Analysis & Exploring financing objectives-** an in-depth research on the benefits a green bond issuance can bring to your firm, assessing the impact on environmental, social and governance factors in order to determine the eligibility of projects while also conducting a market sounding exercise.
2. **Developing a framework & External Review-** should comprise the following four components**:**
   - defining and disclosing the use of proceeds;
   - establishing a process for project & evaluation selection;
   - disclosing how funds will be managed; and
   - reporting on the allocation of proceeds to eligible projects.

   An independent external reviewer should also be appointed to assess the framework in order to improve creditability. The external review can be in either of the following forms: second part opinion, verification, certification or rating report.
3. **Issuance phase-** involves preparing any relevant documents (depending on type of offer) while covering issues relating to the legal, financial and tax aspects, obtaining regulatory approval, opening the offer and eventually offering, distribution & allocation.
4. **Post Issuance phase, which emphasizes on monitoring and reporting-** Periodic reporting on the allocation of proceeds and management of proceeds to ensure that it is in line with the framework established. The issuer may also report selected KPIs to provide an update on the status.
5. **Listing on an exchange-** drafting of required documentation, making the listing application, obtaining approval, admission to the exchange and ensure compliance with the post listing requirements.

For any further information pertaining to the above, please do not hesitate to contact us.

About Perigeum Capital Ltd

Perigeum Capital is a boutique corporate finance firm, geared towards providing businesses with the professional representation and insight they need to execute successful transactions within the precincts of their individual corporate objectives and beyond.

How We May Help

Perigeum Capital has proudly been associated with capital raising projects in the debt market in Mauritius in the recent years, with one of these being the largest debt issuance to date. Our team has the requisite expertise in assisting in the issuance of corporate bonds and the subsequent admission of same on a securities exchange for enhanced visibility and liquidity.

In the context of the issuance of green bonds by corporates, Perigeum Capital may be likely to assist in its capacity as a Corporate Finance Advisor as required under the FSC Guidelines, and equally assist in determining funding options available, developing a suitable framework based on established international standards and guidelines provided by the Bank of Mauritius and FSC, and meeting any requirements during the issuance process. We would also ensure that all AML/CFT requirements are met at any stage and may advise on the regulatory requirements post-issuance and listing of green bonds.

For further information about Perigeum Capital Ltd and a detailed list of the services we provide, please follow the link to our website*:* https://perigeumcapital.com/

4th Floor, Alexander House, 35 Cybercity, Ebene 72201

E: info@perigeum.mu / **T:** (+230) 402 0890.
www.perigeumcapital.com