

## **ISSUANCES AND REQUIREMENTS OF GREEN BONDS**

*This summary aims to provide information for investors or any other related stakeholders. This is not an official translation of OJK Regulation. All of the information refers to OJK Regulation (POJK) Number 60/POJK.04/2017. If there are any inconsistencies between this document and the respective POJK, the respective POJK prevails and becomes the main reference.*

### **A. Background**

OJK Regulation (POJK) Number 60/POJK.04/2017 concerning Issuances and Requirements of Green Bonds was issued to support sustainable development through the national economic system, which prioritises harmony and synergy between economic, social and environmental aspects. As a follow-up action to the Sustainable Finance Roadmap Phase I (2015-2019) published by the Financial Services Authority (OJK), this regulation provides a legal basis and legal assurance for issuers of green bonds through public offerings.

### **B. Key Provisions**

#### **General Provisions**

1. Securities are financial instruments in the form of debt acknowledgment letters, commercial papers, shares, bonds, debentures, investment units in collective investment contracts, futures contracts and any derivatives thereof.
2. Green bonds are debt securities, the proceeds of which are used to finance or refinance business activities that concern environmental sustainability in part or in full.
3. Business Activities that Concern Environmental Sustainability, hereinafter abbreviated to BAES, include business activities and/or other activities that aim to protect, improve and/or increase the quality or function of the environment.
4. An Environmental Expert is:
  - a. an individual or group of individuals with requisite competencies or expertise to assess, verify or test BAES.
  - b. an institution with requisite competencies or expertise to assess, verify or test BAES.
5. A Public Offering is an offering of securities by an issuer to the public in accordance with the procedures stipulated in prevailing capital market laws and regulations along with relevant implementation guidelines.
6. An Issuer is a Party initiating a Public Offering.
7. A Registration Statement is a document that must be submitted to the Financial Services Authority (OJK) by the Issuer prior to initiating a Public Offering or a Public Company.
8. Material Information or Material Facts are important and relevant information or facts pertaining to events, occurrences, or facts that may affect the price of Securities on the Stock Exchange and/or the decisions of investors, prospective investors or other Parties with an interest in such information or facts.

#### **Issuance Requirements for Green Bonds**

1. Issuers seeking to initiate a Public Offering of Green Bonds are required to comply with prevailing capital market laws and regulations concerning the Registration

Statement, Public Offering of Debt Securities and other relevant regulations, unless otherwise stipulated in this OJK Regulation (POJK).

2. Green Bonds can only be issued to finance and/or refinance BAES in the form of:
  - a. new business activities and/or other activities;
  - b. existing business activities and/or other activities; or
  - c. completed business activities and/or other activities.
3. BAES eligible for financing through issuances of Green Bonds include the following business activities and/or other activities which are related to:
  - a. renewable energy;
  - b. energy efficiency;
  - c. sustainable pollution management and control;
  - d. sustainable natural resource and land use management;
  - e. biodiversity conservation;
  - f. clean transportation;
  - g. sustainable water and sewage management;
  - h. climate change adaptation;
  - i. eco-efficient products that reduce resource utilisation and produce less pollution;
  - j. internationally, regionally, and nationally certified green buildings; and
  - k. other business activities that concern environmental sustainability.
4. Issuers of Green Bonds must be assessed by an Environmental Expert to ensure that the business and/or other underlying activity of the Green Bond issuance is beneficial to the environment.
5. Business activities and/or other activities beneficial to the environment aim to protect, improve and/or increase the quality or function of the environment.
6. Environmental Experts must have the requisite competencies relevant to the BAES.

### **Registration Documents**

1. In addition to complying with OJK Regulations (POJK) concerning Registration Statements for Public Offerings of Equity Securities, Debt Securities and/or Sukuk, the Registration Statement for Public Offerings of Green Bonds must be accompanied by the following additional documents:
  - a. a commitment statement from the issuer stipulating that the proceeds of the Public Offering of Green Bonds will be used for BAES;
  - b. an opinion or assessment from an Environmental Expert that the business activity and/or other activity underlying the Green Bonds will be beneficial to the environment, and
  - c. evidence regarding the competency of the Environmental Expert to provide a valid opinion or assessment.

### **Prospectus**

1. In addition to complying with OJK Regulations (POJK) concerning the forms and contents of a prospectus or abridged prospectus for the Public Offering of debt securities, a prospectus for the Public Offering of Green Bonds must contain a separate chapter concerning the following additional information:

- a. a description of the BAES to be financed by the proceeds of the Green Bond issuance, containing at least:
  - 1) the type of BAES; and
  - 2) the environmental impact of the BAES to be achieved by the issuer;
- b. the process and method applied to identify and mitigate potential material environmental and social risks in relation to the business activity and/or other activity in accordance with the BAES to be financed by the issuance of Green Bonds; and
- c. a summary of the opinion or assessment provided by the Environmental Expert stating that the business activity and/or other activity underlying the issuance of Green Bonds is beneficial to the environment.

### **Use of Public Offering Proceeds**

1. At least 70% of the proceeds of Public Offerings of Green Bonds must be used to finance BAES.
2. Issuers can amend the use of proceeds of Public Offerings of Green Bonds in accordance with provisions contained in the OJK Regulations (POJK) concerning the realisation report on use of Public Offering proceeds.
3. Such material changes to the use of proceeds of Public Offerings of Green Bonds are only applicable to BAES and must be accompanied by an opinion or assessment from an Environmental Expert that the business activity and/or other activity underlying the Green Bonds will be beneficial to the environment.

### **Reporting Obligations**

1. Issuers of Green Bonds are required to submit periodic reports based on a review performed by an Environmental Expert once per year and upon each material change to the BAES.
2. Periodic reports must be included in the annual report submitted by Issuers to the Financial Services Authority (OJK).
3. Periodic reports must be submitted until all obligations of the Issuer to the green bondholders are settled.
4. Issuers are required to manage the proceeds of Public Offerings of Green Bonds and submit a report concerning the use of public offering proceeds as stipulated in OJK Regulations (POJK) concerning the realisation report on the use of Public Offering proceeds.
5. The management of public offering proceeds requires the creation of a special account or additional notes in the notes to the financial statements.

### **Changes in the Status of Green Bonds**

1. If the report states that the business activity and/or other activity no longer meets BAES requirements, the Issuer is required to prepare an action plan and implement remedial measures to ensure the business activity and/or other activity still meets the BAES requirements.
2. The action plan, remedial measures and report stating that the business activity and/or other activity no longer meets the BAES requirements must be submitted to the Financial Services Authority (OJK) no later than 14 working days from the date

- of the report. Measures to ensure the business activity and/or other activity still meets BAES requirements must be implemented within one year since the action plan and remedial measures are received by the Financial Services Authority (OJK).
3. Green bonds are no longer considered Green Bonds if the remedial measures taken fail to ensure the business activity and/or other activity financed by the public offering of Green Bonds still meets BAES requirements. In this case, the Issuer must submit a material information or material facts report to the Financial Services Authority (OJK) and issue a public announcement in accordance with the OJK Regulation (POJK) concerning the disclosure of Material Information or Facts by Issuers or Public Companies.
  4. If Green bonds are no longer considered Green Bonds, the bondholder can request the Issuer to:
    - a. buy back the Green Bonds; and/or
    - b. provide compensation in the form of a higher coupon rate on the Green Bonds.
  5. In response to such a bondholder request, the Issuer is required to buy back the Green Bonds and/or provide compensation in the form of a higher coupon rate on the Green Bonds.
  6. Clauses concerning the procedures to buy back Green Bonds and provide compensation, specifying the higher coupon rate, must be stipulated in the trustee agreement.
  7. A buyback and/or compensation request must be submitted through a trustee.
  8. The buyback of Green Bonds by an Issuer must comply with the following conditions:
    - a. the Green Bonds bought back by the Issuer cannot be resold by the Issuer;
    - b. the buyback pricing mechanism is stipulated in the trustee agreement; and
    - c. the buyback must be completed within three months of the trustee requesting for the buyback.
  9. Issuers are exempt from buyback and/or compensation obligations in the event of a force majeure or extraordinary situation beyond the purview or control of the Issuer as follows:
    - a. natural disasters, wars, riots, fires, protests that significantly impact business continuity of the Issuer; and/or
    - b. other events that significantly impact business continuity of the Issuer as determined by the Financial Services Authority (OJK).
  10. The Financial Services Authority (OJK) may provide incentives to Issuers of Green Bonds. Such incentives are no longer valid, however, if the business activity and/or other activity underlying the Green Bond issuance no longer meets BAES requirements.

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