



Bolsa de Valores  
de Panamá, S.A.

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# Guidelines for the issuance of **Social, Green and Sustainable Securities**

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**2019**  
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# Content

<b>1. Background</b>	<b>3</b>
<b>2. Capital Markets and Sustainability</b>	<b>4</b>
2.1 Introduction	4
2.2 Panama Stock Exchange’s Mission to Develop a Green Finance Market	5
<b>3. International Standards Acknowledged by the BVP</b>	<b>6</b>
3.1 Social, Green and Sustainable Securities	7
3.2 Possible Structures for SGS Securities	8
3.3 Benefits of the SGS Securities Issuance	8
3.4 International Practices to Provide SGS Labels	10
3.5 Goals of the Guidelines for the Issuance of Social, Green and Sustainable Securities (SGS) in Panama	11
<b>4. Definitions and Processes for Social, Green and Sustainable Securities</b>	<b>12</b>
4.1 Acronyms and Definitions	12
4.2 Scope of the Guidelines	13
4.3 Implementation	13
4.4 Compliance and Monitoring	13
4.5 Use of Resources/Allocation of Funds	13
4.6 Project Selection	14
4.7 Fund Management	14
4.8 External Review	14
4.9 Exclusions	15
4.10 Post-Issuance	15
4.11 Subsequent Publication	15
4.12 Management of Unallocated Funds	16
<b>Annex A: International Processes</b>	<b>19</b>
<b>Annex B: Categories of Projects According to the GBP and SPB Criteria</b>	<b>20</b>
<b>Annex C: How to Issue a Social, Green and/or Sustainable Bond</b>	<b>22</b>
<b>Annex D: Resources and Support Tools</b>	<b>23</b>



Each of the SGS securities labels is defined in terms of the benefits generated by the projects or activities to be funded. Thus, **“green” securities** are focused on projects or activities with environmental benefits, **“social” securities** are focused on projects or activities with social benefits and **“sustainable” securities** are a combination of both.

# 1. Background

The Panama Stock Exchange is the trading center par excellence, of issuers and investors in the country and the region. Its goal is to promote the stock market in order to finance companies in a transparent and efficient way.

In 1989, when Panama was going through the worst political and economic crisis in its republican history as a country, a group of businessmen crystallized one of the most desired projects by the local financial community: the establishment of a stock exchange. This private sector initiative aimed to operate a centralized negotiation mechanism where the forces of supply and demand of securities could freely converge under the principles of transparency and equality. For this purpose, the Panama Stock Exchange (Bolsa de Valores de Panamá, S.A., BVP in Spanish) was created.

From the beginning, the BVP has promoted measures seeking to modernize the local stock market, such as the creation of a securities custody and settlement center, giving rise to the Central Latinoamericana de Valores, S.A. (Latin Clear) in 1997. This company currently provides clearing and settlement services for stock exchange transactions through electronic systems, thus allowing to eliminate operational risk and inefficiencies when clearing and settling operations that used to be done manually.

On October 22nd, 2009, the BVP's and the Latin Clear's shareholders approved a corporate reorganization in an Extraordinary Assembly, in order to establish a holding company called Latinex Holdings Inc. In February 2011, the Superintendence of the Securities Market (SMV in Spanish) authorized the registration and issuance of the new common shares in the market.

In this context, one of the BVP's key initiatives is to promote the development of financial instruments that generate a positive social, environmental, and/or corporate governance impact through capital markets, which simultaneously

creates instruments that are more attractive for investors. This enables funding of companies and projects that contribute to sustainable development of the national economy.

For this purpose, the BVP has developed the Guidelines for the issuance of Social, Green and Sustainable securities (SGS securities) in Panama. The Guidelines were developed based on international best practices and in consultation with industry players in the region.

The purpose of the Guidelines is to provide the market with best practices and parameters for the issuance of SGS securities aimed to spread international standards and guidelines to assess eligible assets. Each of the SGS securities labels is defined in terms of the benefits generated by the projects or activities to be funded. Thus, **“green” securities** are focused on projects or activities with environmental benefits, **“social” securities** are focused on projects or activities with social benefits and **“sustainable” securities** are a combination of both.

SGS securities have a similar structure to any traditional marketable security. The difference lies in the use of the capital raised, which must be exclusively allocated to activities or projects that qualify as social, green or sustainable, as detailed in the respective issuance prospectus. It is possible to have a mixed bond program (traditional bonds and SGS securities) where each series or tranche will be independently reviewed. If there is a green bond (a green tranche), for example, it can be labeled and certified regardless of the type of bonds included in the same program.

Issuers who want to issue SGS securities, as well as the markets that intend to create labels, segments or distinct panels for these products, must take into consideration what is set forth herein. This provides certainty and transparency to investors in relation to the guidelines, to carry out these issuances. In this regard, the Guidelines provide the market with internationally recognized practices concerning sustainable financing.





## 2. Capital Markets and Sustainability

### 2.1 Introduction

Qualified investors may be a significant source of capital to fund the development of sustainable infrastructure in Panama. During the last five years, there has been an increase in the global demand for investment opportunities in the mitigation of and the adaptation to climate change, the creation of positive social impact and sustainable development. This trend is primarily driven by institutional investors from the Organization for Economic Co-operation and Development (OECD) member states. This can be observed in the increase of capital in initiatives such as the Principles for Responsible Investment (PRI)<sup>1</sup>, the Global Investor Statement on Climate Change<sup>2</sup> and the emergence of funds with interest to invest in financial instruments with green and social purposes.

The growing demand for sustainable assets has led to the development of financial instruments' markets with social, green or sustainable purposes able to provide qualified investors with short, medium and long-term maturities, aligned to their liabilities and with steady and predictable profits. At the time of publication, the green label is the most developed segment worldwide, with great recognition from investors and a broader consensus in relation to its taxonomy.

In addition, the green securities market has experienced

exponential growth internationally, reaching issuances with amounts of USD 87 Billion in 2016, USD 155 Billion in 2017, USD 167 Billion in 2018 and USD 255 Billion in 2019. There is also an increasing diversity regarding the issuer, the geographic location and projects.<sup>3</sup>

The emergence of green securities has been acclaimed by the United Nations as "one of the most significant developments in the financing of low-carbon, climate-resilient investment opportunities"<sup>4</sup>. Similarly, the communication sent in September 2016 by the leaders of the G20 Summit<sup>5</sup> stated that to support environmentally sustainable growth globally, "it is necessary to scale up green financing," promoting cross-border investments to foster the development of local green securities markets.<sup>6</sup>

In this vein and across a range of different initiatives for the development of sustainable financing, the creation of the Task Force on Climate-related Financial Disclosures (TCFD) should be mentioned. Its purpose is to develop voluntary and consistent climate-related financial disclosures that will be useful for investors, lenders and insurers to understand material risks. This group is led by Michael Bloomberg and is supported by 513 international organizations and G20 member states.

1 <https://www.unpri.org/>

2 <http://investorsonclimatechange.org/statement/>

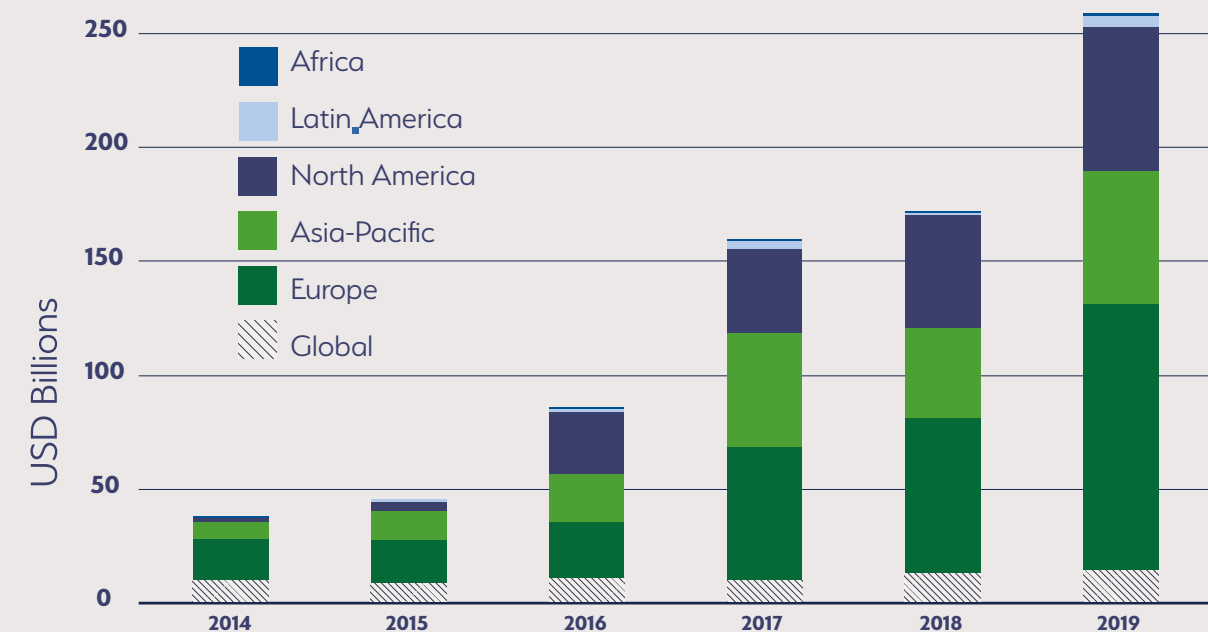
3 <https://www.climatebonds.net/resources/reports/green-bonds-state-market-2018>

4 <https://renewablesnow.com/news/un-report-confirms-key-role-of-green-bonds-in-climate-investment-497005/>

5 International forum, made up of 19 countries and the European Union, representing the world's major developed and emerging economies

6 <http://unepinquiry.org/wp-content/uploads/2017/01/2016-09-04-g20-communique-en.pdf>

### Growth of the green bonds market by region (2014-2019)



Source: Climate Bonds Initiative

The BVP considers that SGS securities are an effective instrument to mobilize private capital to Panama's priority sectors, thus promoting the development of climate-resilient, low-carbon infrastructure that allows for equitable and sustainable development.

SGS securities promote greater transparency since it has to be proved that the raised funding was indeed channeled towards projects with environmental and/or social benefits.

The growing demand for sustainable assets has led to the development of financial instruments markets with green, social or sustainable purposes aimed at providing qualified investors with long term maturity dates, according to their liabilities and with steady and predictable profits.

### 2.2 Panama Stock Exchange's Mission to Develop a Green Finance Market

Since 2018, the BVP has identified and included sustainable finance as an important pillar in its strategic plan to promote the Sustainable Development Goals (SDGs) and to become the capital markets Hub in the region.

In September 2018, the BVP joined the Sustainable Stock Exchange Initiative (SSE) by signing a letter of commitment to promote sustainable and transparent capital markets. In May 2019, it became the first exchange in Latin America to join the Climate Bonds Initiative Partner Program, further strengthening its commitment to promote sustainable finance among local and regional actors. In August 2019, CIFI (*Corporación Interamericana para el Financiamiento de Infraestructura*) issued the first Green Bond in Panama, thus opening this market in the BVP.



### 3. International Standards Acknowledged by the BVP

At an international level, there are well-known standards for the issuance of financial instruments with social, green or sustainable<sup>7</sup> purposes that must be taken into account to label this type of assets.

- **Green Bond Principles (GBP):** Created in 2014 by the International Capital Market Association (ICMA). These principles constitute a procedural guide for the issuance of green bonds. The main objective of these principles is to promote transparency and disclosure of information, thus encouraging integrity in the development of the green bonds market. The four principles or main elements on which the GBP are based on are the use of proceeds, the process for project selection, management of proceeds and accountability. In addition, they recommend the use of external reviews to confirm the alignment with the four elements. For more information on the four principles of the GBP, please see ANNEX A.
- **The Climate Bonds Standard (CBS)** managed by the Climate Bonds Initiative (CBI) refers to criteria and standards developed to be used as tools for governments, investors and businesses whose goal is to mitigate the adverse effects of climate change. These standards set forth the pre-issue and post-issue requirements for instruments and include a list of project categories. It is worth stressing that CBS is aligned with GBP, therefore, they promote confidence and transparency among investors.<sup>8</sup>

The BVP recommends the adoption of the international practices above to be aligned with the global markets.

<sup>7</sup> For more information, please see Annex A.

<sup>8</sup> For more information on Climate Bonds Standards visit: <https://www.climatebonds.net/>

### 3.1 Social, Green and Sustainable Securities

The BVP adopts the definitions established by ICMA's Executive Board, Green Bonds Principles and Social Bonds Principles:

- I **Green Bonds:** defined by GBP as any type of bond where resources will be exclusively allocated to finance or refinance, in part or in full, new or existing projects that are eligible as "green projects." The core elements are the use of funds, project selection, funds management and accountability. The proceeds from the issuance are exclusively allocated to finance activities with environmental benefits, and may include intangible assets<sup>9</sup>. These instruments consider environmental benefits such as mitigation and/or adaptation to climate change, biodiversity conservation, natural resources conservation, or the control of air, water, and soil pollution. Green bonds may also have social benefits. For more information on green bonds, please see ANNEX A.
- II **Social Bonds:** defined by SBP as bonds with resources that will be exclusively allocated to finance or refinance, in part or in full, eligible social projects, whether new or existing, that are aligned with the four core elements of SBP. The goal of social projects is to address or to mitigate a specific social issue and/or to obtain positive social outcomes especially, but not exclusively, for a target population. Just like GBP, SBP consider the use of funds, project selection, fund management and accountability as their core elements. Proceeds are allocated to projects with social benefits, including but not limited to access to infrastructure, food security and affordable housing. Social bonds may also have environmental benefits. For more information on social bonds, please see ANNEX A.
- III **Sustainable Bonds:** are those that finance a combination of environmental and social projects.



<sup>9</sup> Furthermore, funds may also be partially allocated to finance expenditures related to the project, including but not limited to research, development, training and promotion activities.



3.2 Possible Structures for SGS Securities

In financial terms, the SGS securities are structured similarly to traditional ones, with equal characteristics in terms of ratings and structuring processes. In other words, they are instruments that can yield returns similar to a common debt instrument, with the difference that the use of the obtained resources will be exclusively allocated to finance green, social or sustainable activities or projects, which can be guaranteed by institutions exclusively committed to assess the transparency in these type of projects.

According to Panamanian regulation, the following are the possible structures for SGS securities:

- **Bonds:** securities of a private or public company. Through this kind of instrument, financial and non-financial corporates, or the State can receive funds from the general public to finance their projects and, in return, the bonds will accrue interest to their holder.
- **Investment funds:** an investment instrument by which an investor or a participant contributes or subscribes an amount of money that entitles them to the ownership of a percentage of the fund’s portfolio (ownership). This portfolio provides a broader selection of investment assets and is managed by a mutual fund.
- **Treasury bills:** fixed-income securities issued by the Government with maturities of up to one year.
- **Treasury notes:** fixed-income securities issued by the Government with maturities from one to ten years.
- **Treasury bonds:** fixed-income securities issued by the Government with maturities from ten years onwards.
- **Securities:** any bond, negotiable security or other debt instrument, stock market instrument recognized in a custody account, participation fee, participation certificate, securitization certificate, fiduciary certificate, certificate of deposit, mortgage, option and any other instrument or right commonly recognized as a security or constituting a security as determined by the Superintendence. For the purposes of this guide, shares (including treasury shares) have been excluded from this definition.
- **Marketable securities (Valores Comerciales Negociables, or VCNs in Spanish):** are known in the international financial market as commercial papers. They are short-term fixed income securities with a term of less than 365 days. They are mainly issued to finance working capital requirements.

Because the SGS securities will not differ in structure from other traditional financial instruments, the issue requirements will be those established for the issuance of the above referred securities (bonds, investment funds, treasury bills, treasury notes, treasury bonds, securities, Commercial Marketable Securities) in the Decree-Law 1 of July 8, 1999, amended by Law 67 of September 1, 2011<sup>10</sup>, which established the inter-agency coordination and cooperation system, creates the Superintendence of the Securities Market, amending the Decree-Law 1 of 1999 and Law 10 of 1993 and issuing additional laws.

3.3 Benefits of the SGS Securities Issuance

SGS securities provide different benefits not only for issuers but also for investors, as specified in the following table.

The main benefits reported by issuers have been the expansion of the investor base, improvement of their reputation and financing of projects through investment funds, qualified investors and parties interested in social and/or environmental projects. There is also a preliminary proof of benefits in yield for certain issuers, driven by a strong demand from investors and a limited supply. In fact, according to international experiences, bonds with environmental purposes have been usually oversubscribed.<sup>11</sup>

10 For more information, check the link: [http://www.supervalores.gob.pa/files/Ley/LEY\\_67-11.pdf](http://www.supervalores.gob.pa/files/Ley/LEY_67-11.pdf)  
11 Green Bond Pricing in the Primary Market H1 2019, Climate Bonds Initiative 2019 (visit <https://www.climatebonds.net/resources/reports/green-bond-pricing-primary-market-h1-2019>)

Benefits for investors	Benefit for issuers
<ul style="list-style-type: none"><li>+ Obtaining financial returns comparable to those of traditional instruments, with the addition of environmental and/or social benefits.</li><li>+ Contributing to the climate adaptation at the national level, food security, public health, energy supply, among others.</li><li>+ Meeting Environmental, Social and Governance (ESG) requirements of their sustainable investment mandates.</li><li>+ Allowing direct investment to conduct greenings in the so-called brown sectors<sup>12</sup>, along with activities of social impact.</li><li>+ Increasing transparency and accountability on the use and management of proceeds.</li></ul>	<ul style="list-style-type: none"><li>+ Providing an additional source of sustainable financing.</li><li>+ Greater alignment regarding the duration of instruments and the project lifecycle.</li><li>+ Diversification of the investor base, seizing up new business opportunities by taking advantage of the growing sustainable development demand and attracting long-term capital.</li><li>+ Improving reputation.</li><li>+ Attracting strong investor demand, which may lead to high subscription and pricing benefits.</li><li>+ Issuers have tax benefits since there is no tax on issuances traded on the BVP.</li><li>+ Discounts on issuance fees in the primary market of the BVP.</li></ul>

12 "Brown sectors": sectors of highly polluting activities.

3.4 International Practices to Provide SGS Labels

Themed Bonds, such as Green bonds, developed voluntarily for the first time with the first green asset, called the Climate Awareness Bond from the European Investment Bank in 2007, followed by the green bond from the World Bank in 2008. Subsequently, better practices were developed internationally to guide issuers and to offer standardized markets to maintain investor confidence and avoid *green washing*.<sup>13</sup>

Different tools have emerged globally to provide confidence to investors on environmental and/or social labels, including external reviews. These tools are **recommended** to issuers for the purpose of reinforcing the credibility of the security label used to finance green and/or social projects. The most common types of external reviews are<sup>14</sup>:

**1. Second Opinion:** an institution with environmental or social expertise that is independent of the issuer may provide a second opinion. This institution must be independent from the security's structuring processes. Usually, the review consists of an assessment of the security's alignment with GBP/SBP. In particular, it may include an assessment of the issuer's general objectives, strategy, policy and/or processes related to environmental and/or social sustainability, and an assessment of the environmental characteristics of the type of projects where funds will be channeled.

**2. Third-Party Verification:** an issuer may obtain an independent verification through a comparison with a designated set of criteria, related to business processes and/or environmental/social/sustainable criteria. The verification may focus on alignment with internal or external standards or statements made by the issuer. It may also include a verification of the issuer's internal tracking regarding the use and the management of proceeds, impact reports, and alignment with GBP/SBP.

**3. Certification<sup>15</sup>:** is an expert review of the issuer's internal controls and processes against a well-known external green/social standard. A standard defines criteria and the alignment with such criteria, is normally tested by qualified and accredited third parties to verify consistency with the certification criteria. Thus, the issuer may certify their green security against an internationally recognized and publicly available standard, such as the Climate Bonds Standard<sup>16</sup>.

**4. Rating/scoring:** it consists of an assessment of SGS securities and their internal controls and processes, with a third-party rating methodology. Third parties may be specialized analysis providers or rating agencies, according to an established scoring/rating methodology.

13 "Green washing": the possibility that projects may not be used to finance the activities stated by the issuer or that projects may not generate the expected impact.

14 ICMA. "Guidelines for Green, Social and Sustainability Bonds External Reviews", June, 2018. Available on: <https://www.icmagroup.org/green-social-and-sustainability-bonds/external-reviews/>

15 Currently, certification is only available for green bonds.

16 An assessment of the standard, including but not limited to the ISAE 3000, defines criteria and the alignment with such criteria is tested by qualified third parties/certifying bodies.

3.5 Goals of the Guidelines for the Issuance of Social, Green and Sustainable Securities (SGS) in Panama

The development of the Guidelines regarding SGS securities establishes a point of reference and the basis to promote the creation and growth of themed bonds in the local market. The Guidelines aim to provide both markets and potential issuers with a guide regarding best practices and parameters to carry out the development of green, social and/or sustainable securities issues through criteria standardization.

To that end, those markets intending to establish business segments, panels or grant green, social and/or sustainable labels must take into account the rules established herein. Therefore, BVP will continue acting as the legal controlling body of financial instruments subject to the public offering.

The purpose of these Guidelines is to establish the basis for the creation of:

- **Market rules:** outline standards for the purpose of promoting sustainable financing. This is to contribute to the creation of conditions for these instruments to develop in an efficient manner in Panama. These rules shall serve as a guide for all issues under the SGS label, regardless of the issuer's characteristics.
- **Sustainable development parameters:** to promote investment in assets with solid environmental and/or social credentials which may contribute to the country's sustainable development and infrastructure, assist in climate adaptation, address food security, public health, fight against poverty and unemployment, among others.
- **Market integrity:** to provide transparency to investors who seek the themed segment and want to avoid greenwashing. These rules encourage transparency, consistency, standardization, responsibility and confidence in markets.
- **Policies addressed to a specific segment:** to clarify priorities and processes to obtain themed bonds.
- **Standardization:** to identify clear rules to reduce transaction costs, generate greater volumes and facilitate the creation of scale.





# 4. Definitions and Processes for Social, Green and Sustainable Securities

## 4.1 Acronyms and Definitions

Green security	Security with proceeds allocated to projects with environmental benefits.
Social security	Security with proceeds allocated to projects with social benefits.
Sustainable security	Security with proceeds allocated to projects with both environmental and social benefits.
SGS securities	Securities labeled as “green”, “social” and/or “sustainable”.
External Review	Recommended international practice to reinforce the credibility of the security’s social, green and/or sustainable characteristics, which involves a verification of the green, social or sustainable credentials carried out by an independent reviewer.
Framework of the related social or green security	A document that describes the issuer’s environmental strategy and their adherence to and compliance with GBP/SBP/SGB.
Independent external reviewer or independent reviewer	An entity independent from the issuer, its directors, senior management and advisors, which has been appointed by the issuer to confirm the social, green or sustainable status of the instrument.
Issuer	A company, entity or intermediary according to Panamanian laws, which have been authorized by the Superintendence of the Securities Market (SMV, in Spanish) to offer securities to the public.
CBS	Climate Bonds Standards
BVP	Panama Stock Exchange

## 4.2 Scope of the Guidelines

The Guidelines aim to provide guidance in relation to the standards that must be met by the issues to be considered social, green or sustainable. However, issuers shall be required to comply with all regulations applicable to financial instruments in general.

## 4.3 Implementation

These Guidelines seek to promote the development of said instruments in Panama’s capital market.

The Guidelines are part of an iterative process, which is updated and improved as the market diversifies and more instruments, issuers and asset classes emerge. GBP/SBP/SBG and CBS are reviewed once a year.

## 4.4 Compliance and Monitoring

Independent reviewers shall be responsible for validating the green and/or social credentials of SGS securities in accordance with GBP/SBP/SBG and/or CBS. In turn, markets shall control the submission to external reviews, in the event that they are required.

Independent reviewers may be selected from Climate Bonds Initiative’s approved list of reviewers available on their website<sup>17</sup>, as well as from other well-known national or international sources. The independent reviewer must have experience in finance and sustainability and also be responsible for making a report indicating their opinion regarding the chosen security’s social, green, or sustainable category to channel the selected projects.

In order to identify green projects or assets, is it recommended to adopt the Climate Bonds taxonomy and green bond principles.

For green bonds, the adoption of eligible assets is proposed for the categories identified in the International Climate Bonds Taxonomy and GBP/SBP.

## 4.5 Use of Resources/ Allocation of Funds

Proceeds from the issuance will be used to finance and refinance projects or activities with green and/or social purposes (and their related expenses, such as research and development). All designated projects will provide clear environmental and/or social benefits and be duly detailed in the issue prospectus. The use of funds will be properly described in the issue prospectus and in the report made by the independent external reviewer.

The issuer will provide information on:

- The categories of eligible social, green or sustainable projects to which the funds will be allocated.
- The refinancing of specific projects to which resources have been allocated.

For green bonds, the adoption of eligible assets is proposed for the categories identified in the *International Climate Bonds Taxonomy*<sup>18</sup> and GBP/SBP<sup>19</sup>. If local, regional, national or international taxonomy is available that determines the environmental, social and/or sustainable nature of an asset, it may be taken into account as long as it is supported by an external review.

For social bonds, the adoption of categories of eligible projects is proposed for those identified under SBP.<sup>20</sup> Consequently, for sustainable bonds, eligible projects are included in the previous categories, given that they combine social and environmental purposes.



<sup>17</sup> <https://www.climatebonds.net/certification/approved-verifiers>  
<sup>18</sup> <https://www.climatebonds.net/standard/taxonomy>  
<sup>19</sup> This information is included in Annex A.  
<sup>20</sup> To obtain more information about said projects, please see Annex B.



4.6 Project Selection

The issuer will have to define the project(s) to be financed, including in the issue prospectus the estimated impacts based on their possibility of measurement, pursuant to the provisions set forth within the framework of the issuer’s related green and/ or social security. According to GBP/SBP, issuers will establish, document and follow a decision-making process to determine project eligibility, which includes the following:

- I A statement about the environmental and/or social purposes of the selected financial instrument.
- II Processes to determine project eligibility.
- III Eligibility criteria, exclusion criteria or any other process used to identify and manage the environmental and/or social risks associated with projects.

4.7 Funds Management

In order to ensure that proceeds from this type of issuance are used in accordance with the principles agreed upon at the moment of their issue, these assets will be allocated to specific accounts or other reliable methods that guarantee traceability and transparency in the use of funds.

In this way, the issuer will have a formal process to monitor the funds obtained until their total allocation, making a distinction between the resources invested and those that have not been allocated. Resources that have not yet been allocated to a project may be invested temporarily in other financial instruments and said information will have to be given to investors.

Some of the recommendations for resources management include methods to:

- **Follow up fund’s allocation:**
  - + Net proceeds may be credited into a sub-account or tracked in another appropriate way. As an example, the funds obtained may be credited into a bank account specific for projects of the social, green and/ or sustainable financial instrument selected to channel them.
  - + Funds must be allocated within twenty-four (24) months after the issue. Otherwise, the issuer can submit a timeline or an estimated schedule to make said final allocation.
  - + A specific allocation process can be used to manage and account for the financing of eligible projects.
- **Manage unallocated proceeds.**<sup>21</sup>

21 See Item 4.12 for more details.

22 <https://www.climatebonds.net/certification/approved-verifiers>

4.8 External Review

External reviews should be developed to reinforce the credibility of the social, green or sustainable label. It is one of the best global practices aimed to provide transparency and certainty to investors. External reviews approved by ICMA are described in Item 3.4. The following is also recommended:

- I The review should be made by an independent external reviewer.
- II The independent reviewer may be one of those approved by *Climate Bonds Initiative*<sup>22</sup>, although it may also be selected among other local or international entities that may emerge in the future.
- III The independent reviewer should have experience in the analysis of technical characteristics and performance of projects with green and/or social benefits.
- IV The credentials of the independent reviewer and the scope of the review carried out should be made available to investors on the issuer’s website. Besides, external reviewers should, if applicable, reference professional indemnity / professional liability insurance cover.
- V Benefits related to the use of funds are assessed and, when possible, quantified and included in the review.

4.9 Exclusions

The Stock Exchange may withdraw the label if issuers do not meet the requirements specified herein and in applicable regulations set forth by the market regulator and exchange. Therefore, a SGS security may lose its label if:

- It does not meet the criteria related to the use of funds.
- It does not comply with its accountability obligations.
- It does not comply with the market regulations.

4.10 Post-Issuance

The issuer of SGS securities will be subject to all the requirements applicable to the securities described in Item 3.2 or any that may arise as part of the amendment to the Panama Securities Law or internal regulations of the BVP.

4.11 Subsequent Publication

The issuer will provide and keep information on the use of funds updated and readily available. Said information shall be renewed annually until its total allocation and shall be subsequently available upon request in case of a relevant event, by means of a report on the impact of the security issued during its validity, and until all funds have been allocated (Report). It is suggested that the report be validated by an independent external reviewer for its subsequent publication on the issuer’s website, on the market website and other communication channels of the BVP.

The report shall include the following:

- I A brief description of the projects and the amounts disbursed, including (when possible) the percentage of revenue that has been allocated to different eligible sectors and types of projects, and to financing and refinancing<sup>23</sup>.
- II Qualitative performance indicators and, when possible, quantitative measures of project impact performance<sup>24</sup>.
- III Disclosure of the methodology and the underlying assumptions used to prepare the performance and measuring indicators.



23 Should there be confidentiality agreements that prevent the disclosing of certain information, these shall be disclosed in general terms.

24 In the case of green securities, the use of performance qualitative indicators is recommended, and when possible, the use of performance quantitative measures such as “energy capacity, electricity generation, reduced/prevented greenhouse gas emissions, quantity of persons with access to clean power, reduction of water consumption, reduction of the quantity of requested cars, etc.” is recommended.

In order to create an aligned framework for the publication of reports on the impact of green projects, the impact report task force of ICMA's *Green Bond Principles*, developed voluntary guidelines that include recommendations for the creation of impact reports, especially for projects related to energy efficiency, renewable energy, water, wastewater and waste management.

Some of the main recommendations are the following:

- I To define and disclose the period and process to include projects in the reports.
- II To indicate the total amount issued and the amount of funds allocated to green projects.
- III Issuers should provide a list of projects to which funds have been allocated.
- IV The impact report should show the expected environmental impact as a result of the projects to which funds have been allocated.
- V It is recommended to inform the estimated useful life results and/or the economic life of the project (in years) in order to understand the impact throughout its useful life.
- VI The task force suggests four basic indicators to inform on the results on projects related to (1) energy efficiency (EE) and renewable energy (RE), (2) greenhouse gas emissions (GHG) reduced or prevented (EE and RE), (3) annual renewable energy produced (RE), and (4) the capacity of renewable energy plants built or reinstated (RE)<sup>25</sup>.

Likewise, the impact report task force of ICMA's social bonds developed its voluntary guide with the purpose of aligning

social bonds reporting practices<sup>26</sup>. In addition, this task force created an impact report model that includes quantitative and qualitative measures that issuers can adapt according to the project's specific characteristics.

Some of the main recommendations are the following:

- I Issuers will identify the population for which positive socioeconomic results are expected. It is recommended that issuers provide additional information on why the specific population was selected. For example, this implies explaining why the selected population is considered unattended or vulnerable.
- II Issuers will report the expected social impact that will result from the projects to which the funds obtained from social bonds have been allocated.
- III Impact indicators: the use of quantitative and qualitative metrics is suggested.

### 4.12 Management of Unallocated Funds

Proceeds that have not been allocated to specific projects are recommended to:

- I Be kept in temporary investment instruments or be temporarily allocated to reduce indebtedness.
- II In temporary investments, the green and sustainable projects exclude projects that are inconsistent with a low-carbon and climate-resilient economy and with Panamanian climate change policies.

25 For more information on the recommendations mentioned in the impact report, go to: <https://www.icmagroup.org/green-social-and-sustainability-bonds/resource-centre/>

26 For more information about the recommendations for the impact report and report template, go to <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Framework-for-Social-Bond-Reporting-Final-140618v3.pdf>





Annex A: International Processes

**The Green Bonds Principles** (“GBP”) and the **Social Bonds Principles** (“SBP”) are a set of principles underlying the processes of issue and dissemination of green and/or social bonds. They are an initiative led by the industry, boosted by ICMA, that promotes the idea that green and/or social bonds are characterized by the use of funds in green and/or social projects, rather than by the issuer’s characteristics.

The GBP were launched in 2014 and since then they have undergone annual revisions, with their latest update, as of the initial publishing of this document, in 2018. Meanwhile, in 2017, ICMA launched the Social Bonds Principles.

Both principles constitute a guide to set adequate management processes for the use of funds and, likewise, in order to guarantee transparency and credibility, suggest using independent reviewers to provide green and/or social credentials to projects.

Both the GBP and the SBP are based on four pillars, which highlight the informative duties and guide the issuer in four areas:

- I Use of funds:** bond funds will be allocated to “Eligible Green Projects” and/or “Eligible Social Projects” that will be properly described in the documentation of the instrument. The GBP/SBP explicitly acknowledge several generic eligibility categories of Green and/or Social Projects with the purpose of addressing key areas of environmental and/or social concern.
- II Project selection and assessment process:** For project selection, the issuer will clearly inform on: (i) environmental sustainability objectives and/or social goals; (ii) the process by means of which the issuer determines how projects fit into the categories of eligible green and/or social projects; and (iii) the related eligibility criteria and any other process used to identify and manage environmental and social risks.
- III Fund management:** Net funds obtained from the Green and/or Social bonds, or an amount equal to these net

funds, will be credited into a sub-account, transferred to a sub-portfolio or, in any case, be appropriately controlled by the issuer, who should also verify it in an internal and formal way related to credit and investment operations for Green and/or Social Projects.

**IV Accountability:** Issuers will keep the information related to the use of funds of green and/or social bonds updated and available for the investor. Said information will be updated annually until their complete allocation. Reports will include a list of projects to which green/social bonds funds have been allocated as well as a brief description of the projects and the amounts allocated and their expected impact.

The *International Climate Bonds Standard* is a standard for green bonds that is consistent with GBP and adds a definition of green assets consistent with the COP21 Paris Climate Agreement, which advocates limiting global warming to below 2° Celsius by the end of the century.

- The *Climate Bonds Taxonomy*<sup>27</sup> aims to foster common definitions in global markets, in a way that supports growth of a green bonds market.
- Criteria based on science and specific features to each sector are developed to ensure that environmental objectives are met and are consistent through the implementation of the classification;
- *Climate Bonds Initiative* acts as secretariat convening technical expert groups to develop criteria<sup>28</sup>, industrial task force with business leaders to test their feasibility and finally the Climate Bonds Standard Board consists of investors with environmental mandates that approve these criteria.
- As of the initial publishing of this document, certified climate bonds represent 15%<sup>29</sup> of the market worldwide and certification is a dominant practice in the national markets of Australia, India and Nigeria as well as for the international issue of Chinese and Indian issuers, among others.

27 A more detailed version of the taxonomy may be found in: <https://www.climatebonds.net/standard/taxonomy>

28 Specific information available on specific sectors may be found on: <https://www.climatebonds.net/standard/sector-criteria>

29 For further informations visit Climate Bonds Initiative <https://www.climatebonds.net/certification/certified-bonds>



Annex B: Categories of Projects According to the GBP and SPB Criteria<sup>30</sup>

The following project lists are used as a reference and include the types of projects accepted by GBP and SBP. In this regard, they do not exclude other categories or types of projects that may appear after the Guidelines publication.<sup>31</sup>

Social Bonds

Proceeds from a social bond may be used in any of the following project categories:

- Affordable basic infrastructure (for example, drinking water, sewerage, sanitation, transportation).
- Access to essential services (for example, health, education and professional training, medical care, financing, and financial services).
- Affordable housing.
- Employment generation, even through the potential effect of financing SMEs and microfinances.
- Food safety.
- Advancement and socioeconomic empowerment.
- Gender equality.

Green Bonds:

Proceeds from a green bond may be used in any of the following project categories:

- **Renewable energy:** generation, production and transmission of energy using renewable sources, devices and products.
- **Energy efficiency:** new and restored buildings, energy storage, thermal insulation in buildings, district heating, efficient water heaters, solar heaters, smart grids, household appliances and products, etc.
- **Pollution prevention and control:** sewage treatment, reduction of atmospheric emissions, control of greenhouse gases, restoring contaminated soil, waste prevention, waste reduction, waste and energy recycling, value added products from waste and remanufacturing, and associated environmental monitoring, etc.
- **Environmentally sustainable management of living natural resources and land use:** environmentally sustainable agriculture, environmentally sustainable animal breeding, climate-smart agricultural inputs, biological crop protection, drip irrigation, sustainable fisheries from the environmental and aquaculture point of view,

Social Bonds Principles provide examples of populations that may be subject of the social project financed through social bonds, and they include, among others, the following:

- + Population below the poverty line.
- + Population and/or communities excluded and/or marginalized.
- + Vulnerable groups, even as a result of natural disasters.
- + Persons with disabilities.
- + Migrants and/or displaced people.
- + People without education.
- + Unattended population.
- + The unemployed.

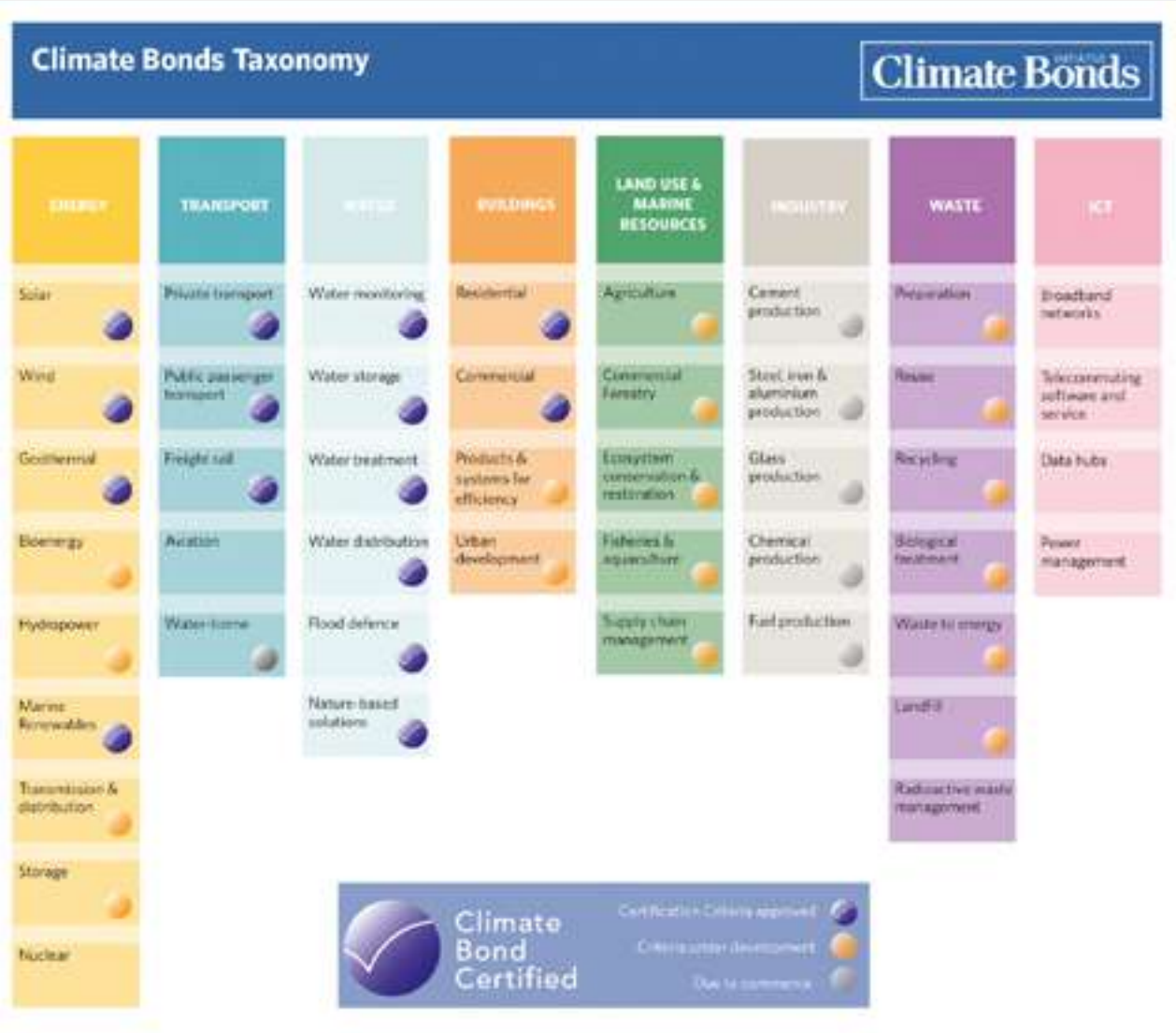
environmentally sustainable forestry, reforestation and preservation or restoration of natural landscapes, etc.

- **Conservation of terrestrial and aquatic biodiversity:** protection of coastal, marine and river basin environments, etc.
- **Clean transport:** electric, hybrid, public, rail, non-motorized, multimodal transport, infrastructure for clean energy vehicles (bike paths or lanes), and reduction of harmful emissions, etc.
- **Sustainable management of water and wastewater:** sustainable infrastructure for drinkable and clean water, sewage treatment, sustainable urban drainage systems and training in river and other forms of flood mitigation, etc.
- **Products, production technologies and processes adapted to the ecological economy and/or circular economy:** development and implementation of environmentally-friendly products with an ecological label or environmental certification, efficient packaging and distribution in terms of resources, etc.
- **Ecological buildings that meet regional, national or international standards and certifications.**

30 Projects are detailed in accordance with the Social Bonds Principles. For more information, go to: <https://www.icmagroup.org/green-social-and-sustainability-bonds/social-bond-principles-sbp/>

31 Issuers and other interested parties may check different examples by clicking on the following link: [www.icmagroup.org/gssbresourcecentre](http://www.icmagroup.org/gssbresourcecentre)

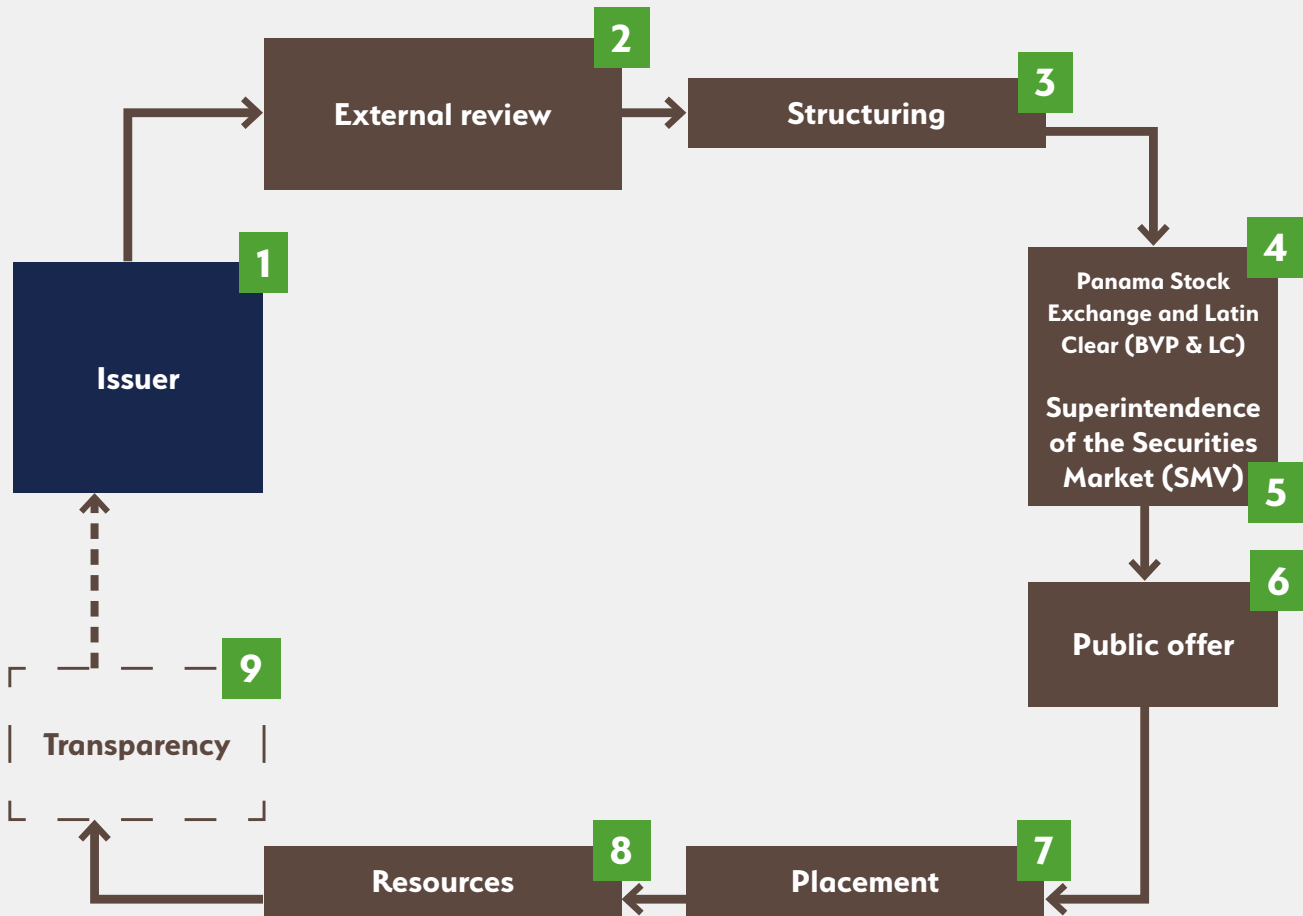
Categories of “Green Projects” Defined in the Climate Bond Standard





Annex C: How to Issue a Social, Green and/or Sustainable Bond

Placement and issuance process:



- 1 **Issuer:** decide to obtain financing and allocate it to a social, green or sustainable project (SGS)
- 2 **External review:** verify compliance with the principles of the corresponding category (SGS)
- 3 **Structuring:** coordinate the structuring terms and conditions with the financial advisor (type, amount, term, etc.)
- 4 **Panama Stock Exchange and Latin Clear (BVP & LC):** complete the BVP and LC listing requirements
- 5 **Superintendence of the Securities Market (SMV):** obtain the authorization of the SMV
- 6 **Public offer:** circulate the information prospectus and announce the terms and conditions of the offer
- 7 **Placement:** issue the market value through the BVP
- 8 **Resources:** allocate the emission's resources to the project(s)
- 9 **Transparency:** comply with the disclosure and transparency requirements

Annex D: Resources and Support Tools

- Understanding Themed Bonds
  - + <https://www.climatebonds.net/resources/understanding>
  - + <https://www.icmagroup.org/green-social-and-sustainability-bonds/questions-and-answers/>
- Information Templates (GBP)
  - + [https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Resource-Centre/Market-Information-Template\\_Green-Bonds-071117.docx](https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Resource-Centre/Market-Information-Template_Green-Bonds-071117.docx)
  - + [https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Resource-Centre/Market-Information-Template\\_Social-Bonds-071117.docx](https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Resource-Centre/Market-Information-Template_Social-Bonds-071117.docx)
  - + [https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Resource-Centre/Market-Information-Template\\_Sustainability-Bonds-071117.docx](https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Resource-Centre/Market-Information-Template_Sustainability-Bonds-071117.docx)
- Impact Reporting Harmonization Framework
  - + <https://www.ifc.org/wps/wcm/connect/f932dc004ad996538a1fea4fb4720a61/Updated+logo+FINALPROPOSALIRH+CLEAN.pdf?MOD=AJPERES>
- Climate Bond Approved Verifiers
  - + <https://www.climatebonds.net/certification/approved-verifiers>



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