

Sustainable Development Sector Being Launched on Moscow Exchange

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The Moscow Exchange has announced the opening of the Sustainable Development Sector. This is a landmark event for the development of a sustainable finance (including green finance) market in Russia.

The Guidelines for the Development of the Russian Financial Market for 2019 - 2021 mentioned the need to consider developing a national system for sustainable financial instruments. Further, the road map for the formation of a green finance market in Russia suggested the creation of a separate green bond sector on a stock exchange.¹

The Russian sustainability agenda is taking a step up to the next level in building infrastructure for a sustainable finance market.

Sustainable Development Sector

The Sustainable Development Sector on the Moscow Exchange is comprised of three different segments: 1) Green Bonds, 2) Social Bonds and 3) National Projects. Bonds, issued either by Russian or foreign issuers, can be included in the Sustainable Development Sector, provided that a set of requirements is met, as described in the new edition of the Listing Rules of the Moscow Exchange.² The key requirements encompass alignment with certain standards/principles, or financing objectives, and confirmation of such alignment, and the disclosure of information. Furthermore, the intended use of the proceeds is to be set out in the issuance documents.

Green and Social Bonds

The bonds will be included in the Green Bonds or Social Bonds segments, provided that the issuance, the issuer³ or the project correspond to the green or social finance principles or standards, being either: 1) the Green Bond Principles of the International Capital Markets Association (ICMA), or the principles/standards of the Climate Bonds Initiative (CBI), or 2) the Social Bond Principles by the ICMA, respectively.⁴

¹ The road map is included in the Diagnostic Overview "Green Finance: the Agenda for Russia" developed by the expert group under the Central Bank: <https://investinfra.ru/frontend/images/PDF/diagnostic-overview-green-finance-the-agenda-for-russia-121118.pdf>.

² The new edition of the Listing Rules of the Moscow Exchange is effective as of 12 August 2019: <https://www.moex.com/s575>.

³ Or a company that is a beneficiary of foreign bond proceeds or is jointly and severally liable for foreign bond obligations (if foreign bonds are issued).

⁴ ICMA Green Bond Principles and the Social Bond Principles: <https://www.icmagroup.org/green-social-and-sustainability-bonds/resource-centre/>.

Principles/standards of the CBI – first of all, the Climate Bonds Standard: <https://www.climatebonds.net/standard>.

In other words, the Green Bonds segment can host bonds issued to (re)finance green projects, such as projects in the sphere of renewable energy, energy efficiency, pollution prevention and control (including waste recycling), clean transportation, climate change adaptation and green buildings. The Social Bonds segment, in turn, can host bonds issued to (re)finance social projects, such as projects pertaining to affordable basic infrastructure (clean drinking water, transport, energy, etc.), access to essential services (health, education, etc.) or affordable housing.

Alignment with the above principles or standards is to be confirmed by an independent external review issued by one of the eligible providers. The list of eligible external review providers is set out in the Listing Rules of the Moscow Exchange, which contains more than 40 companies, including Russian and foreign companies (such as ISS-Oekom, Sustainalytics, Vigeo Eiris, CICERO, Eco Vadis).

Bonds Issued to Implement National Projects

Bonds will be included in the segment of National Projects, provided that the issuance, the issuer or the project align with the goals and deliverables of one of the national projects, in particular, those pertaining to ecology, housing, modernization of the trunk infrastructure, education, health, or pertaining to a federal project which incorporates the implementation of the best available techniques (BAT).

The implementation of BAT at industrial facilities having a significant negative impact on the environment is one of the aims of the national project called "Ecology".⁵ However, the implementation of BAT standards will entail large costs for the relevant enterprises. Therefore, it is expected that they will issue bonds (among other financing) as a way of raising the required funds. State subsidies are envisaged to support such enterprises (by compensating them for some part of the coupon yield payments). Although such bonds are often referred to as green bonds in the press, these will in fact rather be quasi-green bonds or transition bonds.⁶ That is why, in our view, it is quite reasonable for them to be included in a separate segment, rather than the green bonds segment.

Alignment with the goals of the national projects is to be confirmed by the decisions of the relevant state bodies, state officials or interagency committees. For example, for bonds issued to finance BAT implementation projects, presumably, it could be a decision of an interagency committee on the selection of projects for the purposes of granting subsidies.⁷

Disclosure of Information

An independent external review or information about the above state bodies' decisions is to be published on a web page provided by one of the information agencies authorized to disclose information in the securities market, as well as on the website of the Moscow Exchange.⁸

Moreover, maintaining the listing of bonds in the relevant segment requires that the reports on the proper use of proceeds be published at least once a year while the bonds are in circulation.

⁵ The areas concerned include the production of crude oil and natural gas, coal mining, the production of petroleum products, mining and concentration of iron ores, mining and preparation of non-ferrous metal ores, metallurgical production, the production of chemicals and chemical products, waste treatment and disposal, waste water collection and treatment, etc. (Government Resolution No. 1029 of 28 September 2015).

⁶ "Transition bonds" are where the funds raised help support companies become cleaner if they are not fully green.

⁷ The projects will be selected by a special interagency committee no more than twice a year. The selection will be based on the environmental and socio-economic effectiveness of the project, apart from its cost effectiveness (Government Resolution No. 541 of 30 April 2019).

⁸ The external review/information (and later on the reports) is to be published on that web page by the issuer or a company that is a beneficiary of foreign bond proceeds or is jointly and severally liable for foreign bond obligations. The data to be published on the website of the Moscow Exchange is to be provided to it by the issuer.

Recent Issuances of Green Bonds

The Sustainable Development Sector has been created amid the growing interest of Russian issuers in attracting green financing (aligned with international principles) both in the domestic and international markets:⁹

- December 2018: The issuance of green bonds by RSB KHMAO to finance a concession project pertaining to waste management. This is the first issuance of green bonds in Russia based on ICMA Green Bond Principles;
- May 2019: The issuance of green Eurobonds by Russian Railways to finance the acquisition of electric trains. These are the first green Eurobonds from Russia, and the first bonds from Russia certified by the Climate Bonds Initiative.

Sustainability Indices, Non-financial Reporting and Rules for Issuance of Green Bonds

Notably, earlier in 2019, the Moscow Exchange joined the global Sustainable Stock Exchanges (SSE) initiative. Moreover, in cooperation with the Russian Union of Industrialists and Entrepreneurs (RSPP), the Moscow Exchange started calculating sustainability indices on a daily basis.¹⁰ These two MOEX - RSPP stock indices are as follows: 1) Responsibility and Transparency Index, and 2) Sustainable Development Vector Index. Both indices are calculated based on an annual analysis of non-financial reports of the largest Russian companies, and include companies that 1) fully disclose information on sustainable development and corporate social responsibility, and 2) show the best dynamics in sustainable development and corporate social responsibility as compared to the previous year.

Currently, a number of large Russian companies disclose non-financial reports at their own initiative. However, a draft law "On Public Non-Financial Reporting" has been developed, requiring state companies, large companies whose assets or profits exceed a certain threshold, as well as companies whose securities are quoted on a stock exchange, to prepare and disclose annual non-financial reports (covering ESG indicators, among others). Non-financial reports will need to be prepared and disclosed on a "comply or explain" basis.

Furthermore, the drafts of new editions to the Issuance Standards and the Regulation on Disclosure of Information by Issuers have been prepared, setting out the peculiarities of issuances and disclosures with respect to green bonds. According to these draft sub-laws, a "green bond" tag implies that the bond proceeds are applied to (re)finance projects that provide clear environmental benefits and are aligned with the internationally recognized principles of green financing.

Conclusion

In our view, all the developments noted above – i.e. the creation of a separate Sustainable Development Sector on the Moscow Exchange, the pilot green bond issuances, the daily calculation of stock sustainability indices and forthcoming legislative changes in relation to green bonds and non-financial reports – all confirm the firm commitment of the country's and the market participants' intention to develop the sustainable finance market in Russia.

This will hopefully all contribute to an increase in the investment attractiveness of Russian companies giving due consideration to sustainability aspects and implementing projects that provide environmental and/or social benefits, apart from financial benefits.

⁹ In the first case, the bonds were placed on the Moscow Exchange. The second opinion confirming that the projects funded with the proceeds from the bond issuance comply with the Green Bond Principles was provided by the rating agency Rating-Agentur Expert RA GmbH.

In the second case, the bonds were placed on Euronext Dublin; the issuer was a special purpose company, RZD Capital PLC. The second opinion confirming that the Green Bond Framework of RZD complies with the Green Bond Principles was provided by Sustainalytics, and moreover, the issuance was certified by the CBI (see [here](#)).

¹⁰ These indices existed before, but they started to be calculated on a daily basis as of April 2019. The sustainability indices are published on the Moscow Exchange website at: <https://www.moex.com/en/index/MRRT> and <https://www.moex.com/en/index/MRSV>.

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