



MALAWI STOCK EXCHANGE

GUIDELINES FOR ISSUANCE OF SUSTAINABLE BONDS

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Version 1.0

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1.0 Application of the Rules

- 1.1 These rules shall apply to sustainable bonds including green, social, gender bonds and any other sustainable-themed bond acceptable to the Exchange.
- 1.2 An issuer of sustainable bonds shall comply with the requirements in these rules in addition to the relevant provisions of the Securities Act, Companies Act and MSE Listing Rules on Financial Instruments as amended from time to time.

2.0 Procedure for listing

- 2.1 The issuer shall develop a sustainable bond framework setting out the policies and procedures governing the bond, including guidelines for establishing the use of proceeds, process for project evaluation and selection, establishing how proceeds will be managed and the reporting procedures to be followed.
- 2.2 An issuer shall appoint an Independent Verifier to carry out a pre-issuance review and confirm to the Registrar of Financial Institutions and the Exchange that the issuance is eligible to be classified as sustainable pursuant to sustainability guidelines and standards applicable.
- 2.3 An issuer shall prepare a prospectus which shall comply with the Listing Rules and shall contain a statement from the Independent Verifier, in the form of a report, confirming whether the proposed issuance meets the eligibility criteria for sustainable bonds.
- 2.4 The prospectus referred in paragraph 2.3 shall contain the following particulars –
 - a. a statement on the sustainability objectives of the proposed bond and the process to determine project eligibility and related eligibility criteria;
 - b. a statement of the systems, policies and processes to be used for the management, allocation and reporting of the bond funds and investments; and
 - c. a statement to confirm that the proposed bond issuance can be classified as a sustainable bond.
- 2.5 The issuer shall demonstrate that the proposed bond shall comply with the sustainability requirements below;
 - 2.5.1 **Use of proceeds**
 - a. The bond prospectus and other relevant documentation shall clearly describe the purpose or projects towards which the proceeds shall be applied, and how the projects address environmental/climate or social concerns.
 - b. The sustainability projects to which the proceeds will be applied must provide clear social or environmental benefits, which will be assessed and quantified by the issuer and verified by the Independent Verifier.

- c. In the event that all or a proportion of the proceeds are used for refinancing, the issuer must clarify the projects being refinanced.

2.5.2 Disclosure of process for project evaluation and selection

The issuer shall, typically captured in the Sustainable Bond framework:

- a. Clearly disclose the process for project evaluation and selection;
- b. Demonstrate how the projects fit within the eligible projects categories identified above;
- c. Indicate the process applied to identify and manage environmental and social risks associated with the projects; and
- d. Disclose the environmental sustainability objectives.

2.5.3 Management of proceeds

- a. The issuer shall open an escrow bank account into which the net proceeds of the issue shall be deposited; and shall prudently manage the proceeds from the offer in order to ensure strict allocation to proposed projects.
- b. The management of the proceeds shall be done in a transparent manner. The management process should be subjected to an annual audit.
- c. As long as the bond is outstanding, the balance of the net proceeds shall be periodically adjusted to match allocations to eligible projects during the period.
- d. All temporary placements of unallocated net proceeds shall be disclosed to bond holders.
- e. The principles encourage a high level of transparency and recommend that an issuer's management of proceeds be supplemented by the use of an auditor, or other third party, to verify the internal tracking method and the allocation of funds from the sustainable bond proceeds.

3.0 Submission of listing application

The additional requirements related to the Sustainable Bonds are listed below:

- a. The issuer must meet the MSE Listing Rules on Financial Instruments and prepare the admission documents accordingly, for submission to the Exchange as part of its listing application.
- b. The admission documents must provide detailed information on the intended sustainable nature of the bond and the allocation of the proceeds, typically this is captured in the issuer's sustainability Bond Framework and verified by the Independent Verifier.

- c. A copy of the External Review/Second Party Opinion, completed by a qualified Independent Verifier, should also be submitted to the Exchange at the time of application.
- d. In the case of a public offer, the issuer will also need to submit a prospectus that includes information pertaining to the sustainability aspects of the bond – in line with the issuer's Bond Framework.

4.0 Eligibility of the Independent Verifier

- 4.1 The Independent Verifier shall be selected and contracted by the issuer and it is important to ensure the Independent Verifier is sufficiently qualified to conduct the verification and assurance.
- 4.2 The Independent Verifier shall be an entity-
 - a. licensed as an investment advisor by the Registrar of Financial Institutions and accredited by the Exchange.
 - b. with sufficient sustainability topic-related, financial, and market-specific expertise to perform a comprehensive assessment of the use of proceeds of bonds.
 - c. independent of the issuer, its directors, senior management and advisors;
 - d. compliant with the International Capital Markets Association's Guidelines for External Reviewers, or approved under the Climate Standards and Certification Scheme or any industry body acceptable to the Malawi Stock Exchange.

5.0 post-listing requirements

- 5.1 Following the listing of the sustainable bond on the Exchange, the issuer shall follow the standard continuing obligations in terms of general disclosure obligations, submission of financial statements and reports and notifications to the Exchange.
- 5.2 In addition to the post-listing requirements as per the Listing Rules, the sustainable bond issuer shall provide the following information in its annual report, which shall additionally be made available to the bond holders:
 - a. a brief description of the projects and the amounts disbursed, including the percentage of proceeds that have been allocated to different projects and to financing and refinancing of such projects,
 - b. where confidentiality agreements limit the amount of detail that can be disclosed, the information shall be presented to the investors, in generic terms, and the Exchange may request detailed information for regulatory purposes;
 - c. the expected impact of the projects and assets;
 - d. the qualitative performance indicators, and, where feasible, quantitative performance measures of the impact of the projects;

- e. the methodology and underlying assumptions used to prepare performance indicators and metrics; and
- f. The first report shall be due twelve (12) months from the date the bond was issued.

5.3 The annual report shall be reviewed and confirmed by the Independent Verifier.

6.0 Provisions related to non-compliance

6.1 The consequences of breach of sustainability requirements by an issuer of a listed sustainable bond shall be in accordance with the provisions of the Listing rules

6.2 When issuing a sustainable bond, issuers can protect the credibility of their Bond and dispel concerns over potential green washing or such similar non-compliance with the Bond's commitments as per its established framework by:

- a. Defining Sustainable Bond criteria clearly in line with a well-established Guideline, such as International Capital Market Association's Green Bond Principles
- b. Being transparent with investors, including transparency about the bond criteria and use of proceeds, in order to avoid any misunderstanding on how funds will be allocated.
- c. Putting in place robust management processes and controls: issuers to develop processes and controls in line with the International Capital Market Association's Green Bond Principles.
- d. Measuring and reporting regularly on the environmental and/or social outcomes of the funded projects throughout the life of the Sustainable Bond through the annual report.
- e. Providing independent external review to provide investors with confidence in the processes, controls and information reported.

Appendices

Appendix 1: Commonly used terms in green finance

A bond	is a debt instrument, which can be issued by entities such as corporates (banks and other companies), governments and quasi-governments (councils, municipalities) to finance or refinance projects. The issuer of the bond (the borrower) owes the bond holder/investor (the creditor) a debt and depending on the terms they agreed, is obliged to pay back the amount lent within a certain period of time (tenor) and with a certain interest (coupon). Unlike a loan, the bond is a transferable instrument that can be traded on a secondary market if publicly issued.
Blue bond	the proceeds are used for projects and assets related to the marine and coastal industries and ecosystems. A Blue Bond could be categorised as a Green Bond if the project brings climate and/or other environmental benefits.
Green bond	A bond is labelled 'green' or 'environmental' where the proceeds from the bond are directed to projects or assets with environmental benefits (understood to be intrinsically coupled with social co-benefits).
Green washing	this is the practice of making an unsubstantiated or misleading claim about the environmental benefits of a product, service, technology or company practice.
Certified Climate Bond	A subset of green bonds, where proceeds are directed to projects/assets that have specific climate benefits and where the bond has been certified against the Climate Bonds Standard (CBS) as having met the criteria for Use of Proceeds and disclosure for Impact Reporting.
Social Bond	Where the proceeds of the bond are used for projects and assets with positive social outcomes such as health care and education.
Sustainability Bond or SDG Bond	A bond that is financing a range of both social and environmental projects/assets. An SDG Bond invests in projects and assets that are aligned and contribute to the achievement of the Sustainable Development Goals (SDGs).
Sustainability-linked bond	SLBs are bonds for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ Environmental, Social and Governance (ESG) objectives. As such, SLBs are not use-of-proceeds bonds but general-purpose bonds where the issuer commits to future improvements in sustainability outcome(s). The predefined objectives and outcomes are measured through predefined Key Performance Indicators and assessed against predefined Sustainability Performance Targets as per the SLB Guidelines referred to by the Exchange.

Gender Bond means a fixed income instrument issued under these GFIM Rules that is mobilizing financing for projects and/or issuers interested in developing projects or activities aligned with gender equality. A Gender bond can be structured as a use-of-proceed bond or as a general-purpose Sustainability-Linked Bond.

Appendix 2: List of indicative project categories for reference

The following table provides some indicative projects for different types of sustainable bonds. Specific guidance can be obtained through reference to taxonomy provided by the International Capital Markets Association or any other internationally recognised body.

Type of bond	Indicative projects
Green bond	- Renewable energy - Biodiversity conservation - Pollution prevention - Green buildings - Clean transportation
Social bond	- Access to health care services - Affordable housing - Access to education - Food security - Economic empowerment
Gender bond	- Women's economic empowerment - Women's access to health care services - Eradicating gender-based violence - Women's access to education - Advancing women in leadership positions
Sustainability bond or SDG bond	- Access to education (SDG 4) - Clean water and sanitation (SDG 6) - Affordable and clean energy (SDG 7) - Reduced inequality (SDG 10) - Decent work and economic growth (SDG 8)
Sustainability linked bond	- Reduction in carbon emissions - Waste reduction and management - sustainable supply chain management - climate resilience and adaptation - Renewable energy