Monetary Authority of Singapore launches sustainability bond grant scheme

On 26 February 2019 the Monetary Authority of Singapore (**MAS**) announced the expansion of its Green Bond Grant Scheme to include social and sustainability bonds, and renamed the framework the Sustainability Bond Grant Scheme.

Overview

In response to feedback from market participants on the Green Bond Grant Scheme introduced in March 2017 (the **Original Scheme**) and in furtherance of Singapore's drive to be the epicentre of Asia's green, social, and sustainability bond markets, the MAS has expanded the scope of the Original Scheme to include social and sustainability bonds that meet prescribed qualifying requirements (the **New Scheme**), and relaxed the eligibility criteria concerning minimum tenor and issue size.

As reported in our 2018 Spring edition of *Debt Capital Markets Global Insights*, the purpose of the Original Scheme was to assist certain categories of issuers (**qualifying issuers**) with the costs incurred in obtaining an external review or rating of qualifying bonds based on internationally recognized standards and frameworks (**eligible expenses**). The New Scheme covers the same types of eligible expenses in respect of qualifying social and sustainability bonds.

Qualifying issuers

The categories of qualifying issuers under the New Scheme remain the same: All companies and financial institutions, whether onshore or offshore, qualify for the grant. Sovereign issuers are excluded.

Eligibility criteria

To qualify for the grant under the New Scheme, the qualifying issuer's green, social, or sustainability bonds must be:

- listed on the Singapore Exchange (**SGX**);
- a "Qualifying Debt Security" for Singapore tax purposes[1];
- substantially arranged by a Financial Sector Incentive[2] (**FSI**) company or companies in Singapore where more than half of the gross revenue from arranging the issue is attributable to the FSI company/companies; and
- verified by an external reviewer as holding such green, social, or sustainable status based on internationally recognized standards and frameworks such as[3]:
  - ICMA / ASEAN Green Bond Principles
  - ICMA / ASEAN Social Bond Principles
  - ICMA / ASEAN Sustainability Bond Guidelines and Standards
  - Climate Bonds Standards

Enhanced eligibility criteria: Minimum tenor and principal amount

Eligibility criteria concerning minimum tenor and minimum principal amount remain applicable under the New Scheme, but have been significantly relaxed to enable qualifying issuers, including green bond issuers, to gain access to the grant more easily.

- **Tenor**: The requirement for the bonds to have a minimum non-redeemable tenor of three years has been reduced to just a year under the New Scheme.
- **Principal Amount**: The requirement for the bonds to have a minimum principal amount of S$200m[4] has been retained, but the New Scheme also permits an issue size starting from S$20m[4] to qualify for the grant provided it is a drawdown under a debt issuance programme of at least S$200m[4].

These enhanced eligibility criteria on minimum tenor and principal amount should allow issuers with green, social, or sustainability projects that have variable funding needs spread over a period of time to qualify for the grant. Under the Original Scheme, each issuance was required to have minimum non-redeemable tenor of at least three years and a minimum principal amount of S$200m, which effectively excluded issuers seeking to pursue projects that are designed to be rolled out in smaller phases. Now, large sophisticated issuers and smaller sized issuers that do not have the financial strength or a project of sufficient scale to issue a S$200m bond in the first instance can access the grant by establishing a debt issuance programme which should provide the additional benefit of flexibility, enabling the qualifying issuer to access the capital markets as its funding needs dictate and/or to take advantage of attractive pricing windows.

1 Section 13(16), Income Tax Act, Chapter 134 of Singapore; Section 4, Income Tax (Qualifying Debt Securities) Regulations
2 Section 13(16), Income Tax Act, Chapter 134 of Singapore
3 National standards or guidelines remain excluded under the New Scheme.
4 Or its equivalent in other currencies

Maximum amount of grant under the New Scheme

The grant under the New Scheme is subject to the same cap of the lower of 100 percent of actual eligible expenses and S$100,000.

Where the qualifying issuer has a debt issuance programme size of at least S$200m and an initial issuance of at least S$20m in principal amount, subsequent eligible expenses attributable to issuance(s) under the same debt issuance programme will also be eligible provided:

- the subsequent issuance(s) takes place within the validity period of the New Scheme; and
- the total amount claimed by the qualifying issuer, including for the initial principal amount issued, does not exceed the cap.

Qualifying issuers should note that it remains a requirement under the New Scheme that more than half of the eligible expenses be attributable to Singapore-based external review service providers. Diligent enquiries about staffing and work allocation matters should, therefore, be made with service providers at the outside and throughout the life of the transaction, if necessary, to ensure that the Singapore nexus can clearly be demonstrated to the MAS.

Validity period of the New Scheme

The New Scheme is valid from 1 January 2019 to 31 May 2023.

Application process

Similar to the Original Scheme for green bonds, an application for a grant under the New Scheme may only be made after the qualifying bonds have been issued. Qualifying issuers should note the following pre and post-issuance requirements and seek advice from their external advisers prior to any proposed green, social, or sustainability bond issuance to ensure that the proposed issuance will satisfy the eligibility criteria under the New Scheme.

- **Pre-issuance**: A qualifying issuer must appoint a lead arranging bank to carry out appropriate due diligence to verify that the proposed issuance will meet the criteria set out under the New Scheme. The appointed lead arranging bank must be a FSI company in Singapore.
- **Post-issuance**: No later than three months after the issuance date, the appointed lead arranging bank is required to submit a completed application form to the MAS on behalf of the qualifying issuer, together with the requisite invoices for the reimbursement of eligible expenses.

Summary

The relaxation of the eligibility criteria under the New Scheme demonstrates the MAS' understanding of issuers' funding needs and constraints in the green, social, and sustainability bond market, and is expected to encourage more issuances over the next few years. Potential issuers who consider transaction costs associated with external reviews as limiting the attractiveness of such issuances should assess their eligibility for the grant under the New Scheme together with the benefits and flexibilities of issuing bonds under a debt issuance programme. As the grant is available to both onshore and offshore issuers and SGX is typically recognized as an acceptable listing venue by international debt investors, the New Scheme looks set to boost Singapore's competitiveness in the market for this growing asset class.

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