Annex: matching security prices and eligible green expenditure

This annex specifies the principles used to calculate the amounts to be allocated to eligible green expenditure when issuing green OATs.

Components of the price of the securities

The green securities under this framework document are fungible securities (*obligations assimilables du Trésor* or OATs). They are negotiable securities said to be fungible, which means they can be supplemented over time by further issues with the same coupon and maturity. Some OATs are inflation-linked: the nominal value to be paid on redemption is protected against inflation through an adjustment based either on the French or on the euro-area consumer price index[1], depending on the security. The capital of these securities is adjusted every day and the interest paid on these securities is therefore also indexed.

Premiums and discounts

Securities issues give rise to the collection by the issuer, over and above the capital raised, of premiums or discounts, depending on whether the coupon rate of the securities is higher or lower than the market rate at the time of issue. These issue premiums and discounts, which are cash, compensate for the difference, over the life of the security, between the amounts of the coupons paid and those that would have been paid in the case of an issue, should the coupon rate exactly equal the market rate.

In the government's balance sheet, the premium is recorded as a deferred income under non-financial liabilities; the discount is recorded as a deferred expense under current assets. In the income statement, the amortisation of the premium stock and the amortisation of discounts are included in depreciation, amortisation and impairment charges net of assumptions.

The "inflation supplement"

In case of an inflation-linked bond, the price of the security at issue includes, in addition to the nominal amount and a possible premium or discount, an inflation supplement reflecting the adjustment of the nominal amount issued since the dated date[2] of the security.

When the security matures, the government repays the principal plus the indexation to date, so that an indexation supplement is paid at maturity. Although no movement related to the capital indexation supplement occurs in cash accounting between issuance and redemption, Parliament decided to make a provision for the capital indexation in each year budget[3]. On reimbursement date, this provision equals the indexation eventually paid to the bond-holder minus the inflation supplement collected at the time of issue.

[1] All items excluding tobacco.
[2] The dated date of an OAT does not refer to the date of issue of the security but to the starting date of calculation of the first coupon to be paid on this OAT, i.e. the coupon due date preceding the first issue of this OAT. For example, for an OAT issued for the first time on 1st April of year N with a maturity date of 25 May N+10, the dated date is 25 May N-1.
[3] This practice was introduced by Article 125 of the Finance Act 99-1172 of 30 December 1999 for 2000.

Principles for allocating eligible green expenditure

Premiums and discounts are not backed by eligible green expenditure

In the case of a Green OAT issue, premiums and discounts, which constitute a deferred element of the investor's annual remuneration[4], are not included in the allocation process. Indeed, this would result in a form of double counting, both in terms of capital and related interest.

In the case of index-linked securities, the inflation supplement received is allocated to eligible green expenditure

Considering that the supplement received is deducted of the indexation provision calculus, it could be seen as an earmarked resource. However, this characterisation is not explicit in public accounting terms. Therefore, the question of whether or not it should be allocated to eligible green expenditure is not clear from the accounting analysis.

Against this backdrop, the choice is the one of the greater environmental integrity of the security Considering this indexation supplement is not directly part of the investor's annual remuneration, it can be seen considered as nominal. In line with the ICMA *Green Bond Principles*, the decision was taken to include it in the allocation of eligible green expenses, along with the nominal amount issued.

To sum up:

- Should the bond be a non-indexed green OAT, the allocation would be based on the nominal amount outstanding
- Should the bond be an inflation-indexed green OAT, the allocation would be based on the nominal amount of each tap, adjusted by the inflation accrued between the dated date and the delivery date of the security, and determined on the basis of the daily indexation reference[5].

[4] Thus, a premium (discount) is offset by a higher (lower) annual budgetary interest charge than for an issue at market-price.

[5] In both cases, this excludes, in addition to premiums and discounts, the accrued coupon – which, just like them, is part of the investor's remuneration.