Annex: Security prices and eligible green expenditure

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

Components of security prices

Securities issued by AFT

The green bonds governed by this framework document are fungible bonds (*obligations assimilables du Trésor* or OATs). They are called “fungible” because additional issues, or “tap issues”, can be made over time with the same coupon rate and maturity date. Some OATs are inflation-linked: the principal amount to be repaid is adjusted to protect against inflation. The adjustment is based on either the French or the euro-area consumer price index[1], depending on the bond. The principal amount of these securities is adjusted daily, which means that the interest paid on these securities is also inflation-linked.

Premiums and discounts

Securities issues give rise to premiums or discounts for the issuer. The premium or discount depends on whether the coupon rate of the securities is higher or lower than the market interest rate at the time of issue. The issue premiums and discounts offset the difference between the coupon amounts paid over the life of the security and those that would have been paid on an issue with a coupon rate exactly equal to the market interest rate.

Premiums are recorded in the government’s balance sheet as deferred revenue under non-financial liabilities; discounts are recorded as prepaid expenditure under current assets. In the income statement, the stock of premiums and discounts are amortised over the life of the security as depreciation, amortisation and impairment expense, net of write-backs.

The inflation supplement

The issue price of an inflation-linked bond includes an inflation supplement, in addition to the original face value and any premium or discount. This supplement reflects the inflation-linking adjustment of the face value since the dated date[2] of the bond.

When the security matures, the government repays the nominal amount, plus the adjustment for inflation on that date, resulting in the recording of payment of an inflation supplement at maturity. Even though the cash-based accounts show no movements related to the inflation-linking adjustment to principal between issuance and redemption, Parliament decided to set aside a provision for the supplement to be paid at maturity in each year’s budget[3]. On the redemption date, the provision corresponds to the inflation-linking supplement ultimately 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 is not the date on which the security is issued. It is the date on which interest starts to accrue for the first coupon payment. This is the coupon date preceding the inaugural issue date of the OAT. For example, for a ten-year OAT issued for the first time on the 1st April N and maturing on 25 May N+10, the dated date is 25 May N-1.
[3] This practice was introduced by Article 125 of the 2000 Budget Act 99-1172 of 30 December 1999.

Principles for allocating eligible green expenditure

Premiums and discounts are not matched to eligible green expenditure

Premiums and discounts arising from Green OAT issues constitute a deferred component of the investor's annual remuneration[4]. Therefore, they are not part of the allocation process, since this would result in a form of double counting, taking them as a part of both the principal and the related interest.

The inflation supplement received on issues of index-linked securities is matched to eligible green expenditure

The supplement received at issue is deducted when calculating the provision for the inflation supplement to be paid at redemption. Therefore, it could be seen as an earmarked resource. However, this characterisation is not explicit in public accounting terms. The question of whether or not it should be allocated to eligible green expenditure is still not clear from the accounting analysis.

Given the circumstances, the choice made is to ensure the greatest environmental integrity of the bond. As the inflation supplement paid at redemption is not part of the investor's annual remuneration, it can be seen as part of the principal amount. In line with the ICMA *Green Bond Principles*, the decision was made to include the inflation supplement in the allocation to eligible green expenditure, along with the nominal amount issued.

To sum up:

- Should the bond be a non inflation-linked green OAT, the allocation would be based on the nominal amount outstanding
- Should the bond be an inflation-linked 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 settlement date, and calculated on the basis of the daily inflation reference index[5].

[4] An issue premium, or discount, is the counterpart to the difference in interest expense in each year's budget, which is more than or less than the interest expense on a security issued at the market interest rate.
[5] In both cases, accrued coupon interest is excluded, along with the premiums and discounts, since all three are components of the investor's remuneration.