

# Guidance Handbook

November 2023



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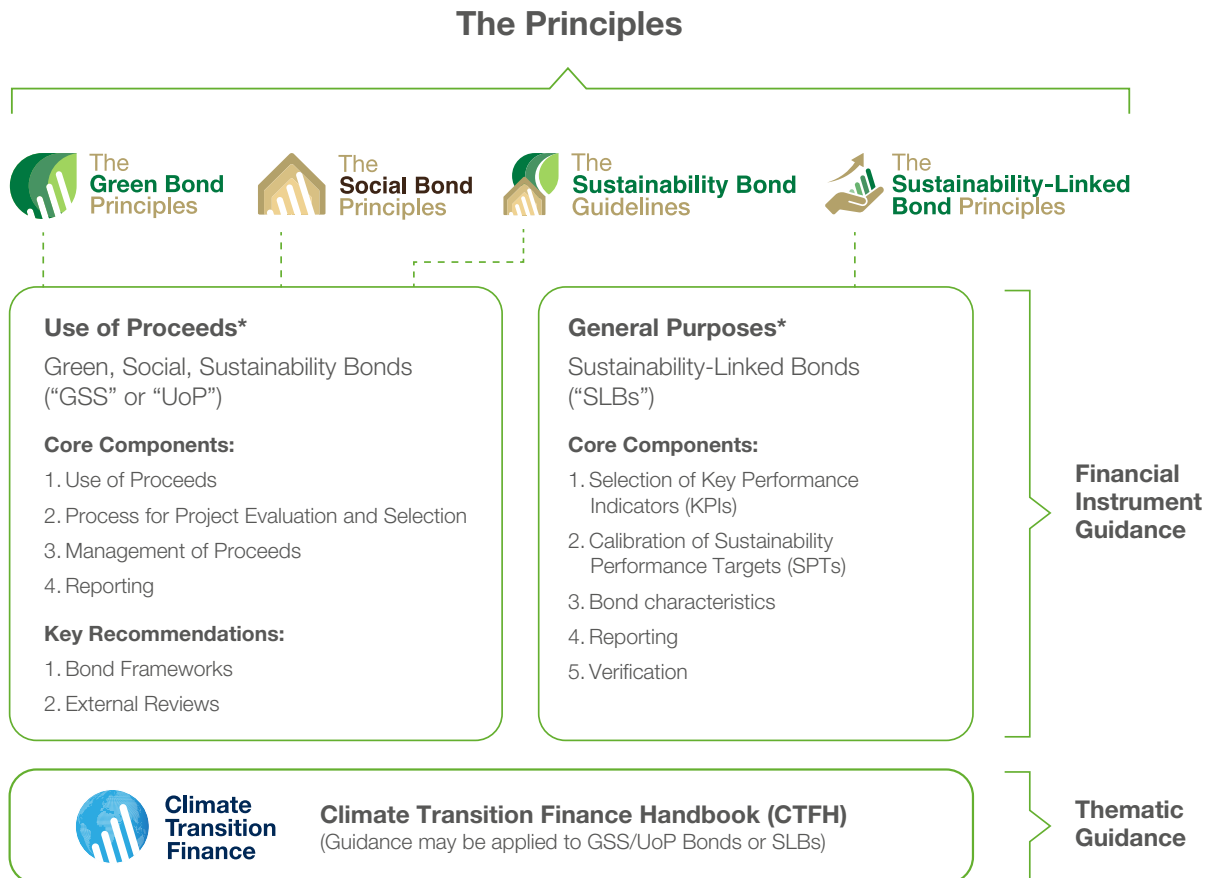
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# View of the Principles



\* Under the GBP, SBP and SBG, an amount equal to the net bond proceeds is dedicated to financing eligible projects (Use of Proceeds Bonds) while under the SLBP, proceeds are primarily for the general purposes of an issuer in pursuit of identified KPIs and SPTs (Sustainability-Linked Bonds). A bond that combines SLB and Use of Proceeds features should apply guidance for both types of bonds.

# List of Abbreviations and Acronyms

CapEx	Capital expenditures
Core Components:	Requirements for the labelling of bonds issued in alignment with the Principles: <i>For GSS/UoP Bonds:</i> 1. Use of Proceeds 2. Process for Project Selection and Evaluation 3. Management of Proceeds 4. Reporting <i>For Sustainability-Linked Bonds (SLBs):</i> 1. Selection of KPIs 2. Calibration of SPTs 3. Bond Characteristics 4. Reporting 5. Verification
CTFH:	<a href="#">Climate Transition Finance Handbook</a>
ESG	Environmental, Social and Governance
GBP	<a href="#">Green Bond Principles</a>
GHG	Greenhouse gas
GSS	Green Bonds, Social Bonds and/or Sustainability Bonds
Key Recommendation(s)	Recommendations for the labelling of bonds issued in alignment with the Principles: <i>For GSS/UoP Bonds:</i> 1. Green/Social/Sustainability Bond framework - 2. External review
KPIs	Key Performance Indicators (for SLBs)
M&A	Mergers and acquisitions
NDCs	<a href="#">Nationally determined contributions under a country's climate action plans</a>
OpEx	Operating expenditures
Principles:	The collective term for the <a href="#">Green Bond Principles</a> , <a href="#">Social Bond Principles</a> , <a href="#">Sustainability Bond Guidelines</a> and <a href="#">Sustainability-Linked Bond Principles</a>
SBG	<a href="#">Sustainability Bond Guidelines</a>
SBP	<a href="#">Social Bond Principles</a>
SBTi	<a href="#">Science Based Targets Initiative</a>
SBTN	<a href="#">Science Based Targets for Nature</a>
SDGs	The UN's 17 <a href="#">Sustainable Development Goals</a>
SLB(s)	Sustainability-Linked Bond(s)
SLBP	<a href="#">Sustainability-Linked Bond Principles</a>
SPO	Second Party Opinion
SPTs	Sustainability Performance Targets (for SLBs)
TCFD	<a href="#">Task Force on Climate-related Financial Disclosures</a>
UoP	Use of Proceeds Bonds (Green Bonds, Social Bonds and Sustainability Bonds)

# Introduction

Since the original publication of the [Green Bond Principles](#) (GBP) in 2014, and the subsequent releases of the [Social Bond Principles](#) (SBP) and [Sustainability Bond Guidelines](#) (SBG) in 2017, followed by the release of the [Sustainability-Linked Bond Principles](#) (SLBP) in 2020 (together, “the Principles”), market participants have sought additional information on how to interpret this guidance especially for its practical application for transactions, as well as in the context of market developments and complementary initiatives.

The responses provided by the [Executive Committee of the Principles](#) have been made available online and have grown into an important body of knowledge and best practices. They were first published in 2019 in the form of this “Guidance Handbook” in order to further enhance the accessibility and user-friendliness of the information.

The Executive Committee, with the support of the International Capital Market Association (ICMA), is now publishing this updated edition of the Guidance Handbook that contains additional responses, notably on the June 2022 Appendix 1 of the GBP and SBP regarding securitisation. A new chapter on Sustainability-Linked Bonds has been added and consequently all Q&As previously under sub-section D, section 3 of chapter 2 have been moved. Finally, a new Chapter 8 covers Q&As related to pandemics and social projects to support fragile and conflict states.

The table of content covers 8 chapters: (1) Fundamentals, (2) Core Components of the GBP/SBP, (3) Secured GSS Bonds, (4) Core Components of the SLBP, (5) Market and Technical Issues, (6) Governance & Membership, (7) Other Market and Official Sector Initiatives, and (8) Indicative examples of types of Social and Sustainability Bonds.

This 2023 edition of the Guidance Handbook reflects all updated publications since January 2022.

Our objective is that this publication be widely circulated and used by the Green, Social and Sustainability Bond market. It is designed to support market development and to underpin market integrity. We hope that it will prove useful to all participants and stakeholders.



# 1. Fundamentals

## 1.1 Is there a definition of Green, Social, Sustainability and Sustainability-Linked Bonds?

Green, Social and Sustainability Bonds are any type of bond instrument where the proceeds will be exclusively applied to eligible environmental and social projects or a combination of both.

- a. Green Bonds are any type of bond instrument where the proceeds - or an amount equal to the net proceeds - will be exclusively applied to finance or re-finance projects with clear environmental benefits and which are aligned with the Core Components of the GBP. Eligible Green Project categories include (but are not limited to): renewable energy, energy efficiency, pollution prevention and control, environmentally sustainable management of living natural resources and land use, terrestrial and aquatic biodiversity conservation, clean transportation, sustainable water and wastewater management, climate change adaptation, circular economy and/or eco-efficient projects, and green buildings.
- b. Social Bonds are any type of bond instrument where the proceeds - or an amount equal to the net proceeds - will be exclusively applied to finance projects that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes, especially but not exclusively for a target population(s) and are aligned with the Core Components of the SBP. Social Project categories include (but are not limited to): providing and/or promoting, affordable basic infrastructure, access to essential services, affordable housing, employment generation, food security, and socioeconomic advancement and empowerment.
- c. Sustainability Bonds are any type of bond instrument where the proceeds - or an amount equal to the net proceeds - will be exclusively applied to finance or re-finance a combination of Green and Social Projects and which are aligned with the Core Components of the GBP and SBP.
- d. Sustainability-Linked Bonds are any type of bond instrument for which the financial and/or structural characteristics (e.g. coupon, maturity, repayment amount) can vary depending on whether the issuer achieves predefined Sustainability/Environmental and/or Social and/or Governance (ESG) objectives within a predefined timeline, and which are aligned with the Core Components on the SLBP. While the proceeds of Sustainability-Linked Bonds are typically designated for general corporate purposes, (or for general budgetary needs for sovereign SLBs) it is possible to combine a “use of proceeds” approach with a Sustainability-Linked Bond approach, if an issuer chooses to earmark the proceeds of their sustainability-linked bond to specific projects, and where these are eligible green and/or social projects, by aligning their bonds simultaneously with all the Core Components of the GBP/SBP/SBG and the SLBP.

GSS Bonds and SLBs are regulated instruments subject to the same capital market and financial regulation as other listed fixed income securities.

## 1.2 Who can issue a Green, Social, Sustainability or Sustainability-Linked Bond?

Subject to any applicable law or regulation, all types of issuers in the debt capital markets can issue a GSS Bond or an SLB as long as it is aligned with the Core Components of the Principles.

Issuers considering issuing GSS Bonds can refer to the relevant Pre-issuance Checklists<sup>1</sup> for guidance on the steps for establishing a Green/Social Bond framework as recommended by the GBP/SBP. Issuers looking to issue Sustainability-Linked Bonds may refer to Appendix II of the SLBP for a SLB Disclosure Data Checklist.

<sup>1</sup> Green Bonds: [Pre-issuance-Check-List-for-Green-Bonds-Green-Bond-Programmes](#)  
Social Bonds: [Pre-issuance-Check-List-for-Social-Bonds-Social-Bond-Programmes](#)

### 1.3 Is there an official list of each Green, Social, Sustainability, or Sustainability-Linked Bond issued?

A [database](#) of labelled bonds declared by the issuer and/or an external reviewer to be aligned with the Principles, hosted by LGX DataHub, is available on the sustainable finance section of ICMA's website.

Issuers wishing to be listed in the database are invited to complete and forward to [ICMA](#) their information template<sup>2</sup> and/or the external review form<sup>3</sup>.

Apart from this, there are several lists, databases or indices that exchanges, market data providers or external review providers are updating, based on their own criteria.

With the objective to increase transparency and promote best practice, the Executive Committee of the Principles published the [Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds' Impact Reporting Databases](#). The document provides voluntary guidance relating to several topics relevant to database providers, including ethical standards, governance and data security, referencing impact calculation methodology, presentation of data, etc<sup>4</sup>.

### 1.4 Do the GBP and SBP provide clear standards for defining what projects qualify as Green or Social? Are the Green and/or Social Project categories comprehensive? How do GBP's eligible Green Project Categories differ from other publicly available taxonomies?

The GBP and SBP only provide a broad suggested, and non-exhaustive list of eligible Green and Social Project categories, but note that issuers can reference existing standards and taxonomies (such as labels and accreditations for a specific sector) and/or develop their own framework. Projects may also refer to several categories or fall into categories that are not explicitly listed by the GBP or SBP. Issuers are encouraged to provide the thought process by which they evaluate the clear environmental and social benefits of all projects to be funded by GSS Bond issuance, as well as of any additional project category they introduce.

In June 2019, the Executive Committee of the Principles also released a [Green Project Mapping](#) that aimed to provide a broad frame of reference by which issuers, investors, underwriters and other bond market participants can relate and evaluate the benefits and contribution of the GBP's Green Project categories to its own stated five environmental objectives (climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control). It also provides a basis for comparison to a few green taxonomies and classification systems currently used in the market. The Green Project Mapping document was last updated in 2021 to reflect subsequent taxonomies, however, regional, national and international standards and taxonomies continue to evolve apace.

The GBP's high level Green Project categories can be complemented by taxonomies such as those provided for example by the Climate Bonds Initiative and Multilateral Development Banks<sup>5</sup>. Links to a few of these taxonomies can be found on the [sustainable finance section](#) of ICMA's website. If relevant, the GBP encourage issuers to provide information on the degree of alignment of projects with official, market-based taxonomies, including in an issuer's Green Bond framework.

2 [Green Bond Information Template](#)  
[Social Bond Information Template](#)  
[Sustainability Bond Information Template](#)  
[Sustainability-Linked Bond Information Template](#)  
 3 [Use of Proceeds Bonds External Review Form](#)  
[Sustainability-Linked Bond External Review Form](#)  
 4 For a list of database providers see the [Impact Reporting Database Service Mapping](#)  
 5 For a non-exhaustive list of existing taxonomies, see Annex 2 of the 2023 CTFH

## 1.5 What is the distinction between a “Core Component” and a “Key Recommendation” of the GBP/SBP?

Transparency and disclosure underpin the integrity of the market, and the Principles seek to ensure this through highlighting Core Components and, in the case of GSS bonds, Key Recommendations. In order for a GSS issuer to claim alignment with the GBP/SBP/SBG, at a minimum their bond issue should align with all the Core Components of the GBP and/or SBP (Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, and Reporting). The GBP and SBP highlight the importance placed by the market on the two Key Recommendations for heightened transparency: the use of Bond frameworks and external reviews. In following these two Key Recommendations together with the Core Components, issuers enable all relevant market participants (such as investors, underwriters, stock exchanges and data providers) to gain a better understanding and fuller assessment of the sustainability characteristics of the relevant issue or programme.

## 1.6 What are the advantages of issuing a Green Bond?

Issuers of Green Bonds signal their commitment to addressing environmental issues both externally and internally by financing projects with clear environmental benefits. Issuers can also achieve greater diversification of their investor base resulting in potential increased demand and related advantages. It is important to underline that subsidies, regulatory and/or fiscal incentives may be available in certain jurisdictions.

## 1.7 What is an external review? Is it required? Who are the external review providers? Are they endorsed by the Principles?

It is a Key Recommendation of the GBP and SBP that issuers (i) use a pre-issuance external review to assess the alignment of their issuance, bond programme and/or their framework with the Core Components of the GBP or SBP; and (ii) post issuance that an issuer’s management of proceeds be supplemented by the use of an external auditor, or other third party, to verify the internal tracking and the allocation of funds to eligible Green and/or Social Projects.

External reviews can be performed pre and/or post bond issuance. In 2018 the [Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews](#) was published by the Executive Committee of the Principles. It was updated in June 2022 to highlight additional considerations associated with climate transition, in accordance with the four key elements of the CTFH. The Guidelines detail the different types of external review and provide expectations for professional and ethical standards for external reviewers and include guidance related to organisation, content and disclosure for their reports.

The Principles do not endorse any external review providers, but solely provide an overview of external review services. The [External Review Service Mapping](#) aims to provide market participants with clear information on the range of services offered, as well as the context and content of the final external review report. The overview includes templates, and external reviewers are invited to voluntarily provide information about the different external review services they provide.

Obtaining an independent and external verification is a core component as part of the reporting commitment under the SLBP, as set out in section 4 and 5 of the SLBP. Such a verification should also coincide with any trigger event on the bond instrument – i.e. a point in time measurement of the SPT that effects the bond’s characteristics. Annual disclosure of relevant information for the assessment of the SPT performance is recommended.

## 1.8 Can Green, Social, Sustainability or Sustainability-Linked Bonds “default” by not following the core components of the GBP/SBP/SLBP anymore?

Alignment with the Core Components of the GBP/SBP/SBG/SLBP is voluntary. Issuers should, however, address in their reporting whether their GSS Bond(s) remain aligned with all the Core Components of the GBP/SBP/SBG/SLBP. Issuers will be exposed to significant reputational risk if their GSSS Bond(s) do not meet their environmental or social undertakings and cease to be aligned with the GBP/SBP/SBG/SLBP.

## 1.9 Can a Green Bond, Sustainability or Sustainability-Linked Bond be issued by an issuer that has low ESG ratings, exposure to controversial issues or controversial sectors/technologies (such as fossil fuels or nuclear energy)?

The focus of Green Bonds is on the eligible Green Projects rather than on the issuer itself. It should nonetheless be noted that the GBP recommend that issuers clearly communicate to investors their environmental sustainability objectives overall, and how they will identify and manage potential environmental and social risks associated with the selected projects. Many investors consider the issuer's profile and take into consideration the quality of the issuer's overall profile and performance regarding environmental sustainability for Green Bonds, Sustainability Bonds and Sustainability-Linked Bonds. In the presence of controversial issues, such as fossil fuel, extractive or nuclear based activities, or limited overall sustainability credentials, investors, stock exchanges, index providers and other market participants may also require additional transparency from the issuer. In particular, additional disclosures may be sought around the strategic importance of sustainability for the business, demonstration of the issuer's transition strategy and/or the sustainability benefits of the underlying projects that go beyond established sector norms and business as usual. The CTFH acts as additional guidance for issuers seeking to utilise GSS Bonds and SLBs towards the achievement of their climate transition strategy. Issuers should consider the relevance of the recommended elements of disclosure.

## 1.10 Can a Green Bond or a Sustainability Bond or a Sustainability-Linked Bond be issued by an issuer at the start of its transition journey, i.e. an issuer not yet able to claim alignment with the Paris Agreement, but taking ambitious steps in that direction?

Use of proceeds and/or Sustainability-Linked Bond issuers are at different stages of their transition journey, and they should seek alignment with the voluntary guidelines in the CTFH on a best-efforts basis, disclosing how they are progressing against each of the recommended elements. Where applicable, an issuer may choose to signpost future plans for further developing a transition strategy. In addition, any impact reporting provided should include an update on their progress.

## 1.11 Can a Green Bond or a Sustainability Bond be issued by a financial institution, who may not yet have a transition plan of its own, but may be involved in financing its clients' transition strategies?

Financiers extending debt for their clients' eligible Green Projects can issue Green Bonds or Sustainability Bonds. Where the Green Projects support their clients' transition strategies, the financial institution should articulate their process for determining how each eligible projects fit into their client's climate transition objectives and strategy, referencing the recommendations outlined in the CTFH. Furthermore, and in line with the Fundamentals, Recommendations and Guidance published by the Glasgow Financial Alliance for Net Zero ([GFANZ](#)) issuing financial institutions that have not yet articulated a transition plan may seek to highlight how their Green/Sustainability Bond fits with their transition commitment and strategy.

## 1.12 Can 'pure play' companies issue Green Bonds? Are all bonds from pure play companies automatically Green Bonds?

Bonds issued by companies whose business activities are exclusively focused on the green economy (pure play) are only considered as Green Bonds if they are explicitly aligned with the GBP (see definition of Green Bond in Q 1.1). The GBP, however, recognises that there is a wider universe of climate and/or environmentally themed bonds of which pure play bonds (that are not explicitly aligned with the GBP) may be considered a part.

### 1.13 What is the difference between Green Bonds, climate bonds, environmental bonds, Social Bonds, Sustainability Bonds, Sustainability-Linked Bonds, Transition Bonds, Blue Bonds, SDG and ESG bonds?

As defined by the GBP, Green Bonds encompass climate and environmental bonds as long as they are aligned with the Core Components of the GBP. The SBP provide a definition for Social Bonds, while the SBG provide one for Sustainability Bonds. The common feature of Green, Social and Sustainability Bonds is their predetermined use of proceeds and voluntary alignment with a common set of criteria. Issuers are encouraged to use the Green, Social or Sustainability Bond designations, as appropriate, whenever their issuance is aligned with the Core Components of the GBP and/or SBP.

Sustainability-Linked Bonds are intended to be used for the issuer's general purposes, but incorporate measurable forward-looking sustainability key performance indicators and sustainability performance targets into the financial and/or structural characteristics of bonds that are aligned with all Core Components of the SLBP.

Transition bonds can be either Green Bonds, Sustainability Bonds, or SLBs that are issued by those looking to align their financing strategy to their climate transition strategy and decarbonisation trajectory. Issuers are recommended to reference the CTFH and align with the elements contained therein to communicate their GHG emissions' reduction strategy. This is especially pertinent to green, sustainability or sustainability-linked instruments designated as "climate transition" bonds (which may take the form of an additional climate transition label, as is the case in certain jurisdictions).

A number of transactions have been promoted as "Blue Bonds" to emphasise the importance of the sustainable use and protection of water resources and the promotion of related sustainable economic activities. Such "Blue Bonds" are also Green Bonds as long as they align with the four Core Components of the GBP.

SDG bonds are Sustainability Bonds that aim to promote wide sustainability criteria and/or the SDGs to which the GBP/SBP's environmental objectives can also contribute (see [High Level Mapping to the Sustainable Development Goals](#)). They can however only be considered as GSS Bonds or SLBs if they align with the Principles.

As with SLBs, ESG bonds also integrate governance criteria which are not featured in the GBP, SBP or SBG; and may refer to an issuer's overall sustainability credentials rather than a specific use of proceeds. They can therefore only be considered SLBs if they align with the Core Components of the SLBP, and can only be deemed Green, Social or Sustainability Bonds if they align with the GBP, SBP or SBG.

### 1.14 Is there a difference between a Social Bond and a social impact bond?

Social impact bonds, also referred to as pay-for-performance instruments, typically refer to public-private partnerships in which the cash flows of the transactions are dependent on the achievement of pre-defined non-financial performance metrics and which do not generally share the typical characteristics of a bond. In contrast, Social Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance in part or in full new and/or existing projects with positive social benefits and which are aligned with the Core Components of the SBP

### 1.15 The GBP and SBP state issuers should communicate the “process applied to identify and manage potentially material social and environmental risks associated with the projects”. What is expected of issuers?

Issuers should seek to clarify any related eligibility and exclusion criteria, as well as any other policies or processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s). Issuers are encouraged to seek through their processes to identify mitigants to known and likely risks of material negative social and/or environmental impacts from the project(s), which may include relevant trade-off analysis and monitoring undertaken where the issuer assesses the potential risks to be meaningful.

Climate transition in alignment with the goals of the Paris Agreement, may, for instance, have material impacts on employees in greenhouse gas intensive sectors of the economy. Understanding how an issuer is looking to incorporate the elements of a “just transition” into its overall decarbonisation strategy is therefore also considered relevant. A “just transition” seeks to ensure that the substantial benefits of a green economy transition are shared widely, while also supporting those who stand to lose economically – be they countries, regions, industries, communities, workers or consumers. The “just transition” concept links to a number of the SDGs, explicitly drawing together SDGs 13 – climate action, 10 – reduced inequalities, 8 – decent work and economic growth, and 7 – affordable and clean energy. See Disclosure 4 of the CTFH.

### 1.16 What is the targeted investor base for Green Bonds, Social Bonds and Sustainability-Linked Bonds?

Green Bonds, Social Bonds and Sustainability-Linked Bonds are suitable for all investors and are particularly relevant for fixed income funds with a responsible investment/ESG strategy, notably ESG integration, best in class, ESG tilts and thematic approaches. Certain dedicated Green Bond/Social Bond/Sustainability Bond funds may also consider Sustainability-Linked Bonds that reference relevant KPIs and SPTs even when these are not combined with a “use of proceeds” approach.

### 1.17 Are there restrictions on the types of debt instruments that can be issued under the GBP, SBP and SBG?

Generally, no. So long as the instrument has a use of proceeds which can be exclusively applied to eligible Green and/or Social Projects and follows the relevant Core Components, the instrument could be deemed eligible. Borrowers under loan instruments, however, should consider the applicability of the Green Loan Principles, as administered by the [Loan Syndications and Trading Association \(LSTA\)](#).



## 1.18 Can a bond be labelled as a GSS bond post-issuance?

A labelled GSS bond must align with the Core Components of the GBP/SBP, which lay out clear processes and disclosures that issuers should follow to enable investors to evaluate the environmental/social impact of their GSS bond investments. For example, those highlighted in the Pre-issuance Checklists for issuers considering issuing Green Bonds and Social Bonds<sup>6</sup>.

This implies systematic, deliberate, and sequential issuance processes and disclosures both pre- and post-issuance, which are optimally honed through active dialogue with underwriters, arrangers, external reviewers and investors. Therefore, in practice, as post-issuance labelling of a GSS bond implies multiple communication, documentation, disclosure and timing-related constraints, it should be viewed as an uncommon approach to GSS bond issuance.

In order to align with all the Core Components of the GBP/SBP, issuers wishing to relabel bonds, will need to do more than just amend the legal bond documentation through a successful consent solicitation to clarify that the bond proceeds will be exclusively applied to eligible Green and/or Social Projects. Investors will likely expect issuers to demonstrate that appropriate processes for project evaluation and selection and management of proceeds were in place from the start; ensure that they meet requirements for reporting within one year of the original issuance, or, if the first anniversary has passed, at the time of relabelling, showing sufficient eligible assets to cover an amount equal to the original bond's net proceeds; demonstrate how retroactive labelling is consistent with their overarching sustainability strategy and commitment to GSS bond markets; and clarify the availability/applicability of their GSS Bond framework.

Issuers should be aware that there are diverse opinions about the relevance of such relabelling. For instance, depending on their criteria, some investors, indices, exchanges and market data providers may not recognise relabelled bonds.

<sup>6</sup> Green Bonds: [Pre-issuance-Check-List-for-Green-Bonds-Green-Bond-Programmes](#)  
Social Bonds: [Pre-issuance-Check-List-for-Social-Bonds-Social-Bond-Programmes](#)

## 2. Core Components of the GBP/SBP

### 2.1 Use of Proceeds

#### A Common features

##### 2.1.1 How can issuers be transparent about the age of refinanced Green and/or Social Projects?

GSS Bonds are often used to refinance assets that have a longer operating lifetime than the bond's tenor. Eligible Green and/or Social Projects would qualify for refinancing as long as they are in use, follow the relevant eligibility criteria at the time of issuance, and are still assessed as making a meaningful impact. Note however, that many investors differentiate between the refinancing of capital projects and operating expenditures and may expect a shorter look-back period for OpEx. Investors may also seek additional information on the clear environmental benefits of refinanced projects with longer look-back periods. The GBP/SBP/ SBG recommend that issuers clarify which projects are to be refinanced and disclose, to the extent relevant, the expected look-back period (i.e. the number of previous years that the issuer will look back to) for these refinanced Projects.

##### 2.1.2 Are intangible assets (such as education, monitoring, R&D) or expenditures also eligible for Green, Social or Sustainability Bonds? How can investors assess their eligibility?

The proceeds from a GSS Bond may be used to finance or refinance other expenditures related to or in support of eligible Green and/or Social Projects, as long as those intangible assets and expenditures are associated with clear environmental or social benefits. A Key Recommendation of the GBP/SBP is that issuers use an external review to help investors assess the bond's alignment with the Core Components of the GBP/SBP, including the environmental or social benefits of the projects to be financed together with any related intangible assets and expenditures.

The importance of the issuer's overall decarbonisation trajectory is especially high in hard to abate sectors, and it is understood that this will contain multiple levers to achieve: CapEx, and OpEx (incl. R&D, education, and monitoring). In the context of decarbonisation efforts, disclosures aligned to each of the four elements of the CTFH are recommended to credibly articulate how the identified use of proceeds fits into the achievement of the overall strategy.

##### 2.1.3 When a bond finances projects that have both social and environmental benefits, such as sustainable social housing, sustainable public transport and access to clean water, can the issuer freely choose the designation of the bond as either Green, Social or Sustainability Bond?

Yes, as long as the bond is aligned with the Core Components of the GBP or SBP. The issuer should determine the designation depending on the primacy of the intended objectives of underlying projects. Where the issuer's prime focus is on the intended environmental objectives of the project, they should label the bond a Green Bond. Where the issuer's prime focus is on the intended societal objectives of the project, they should label the bond a Social Bond. The SBG have been developed for bonds that include both Social and Green Projects. An issue should fall under just one of the aforementioned three categories, and issuers should therefore refrain from using multiple designations for the same transaction, notwithstanding the fact that Green Projects may have social benefits and, conversely, Social Projects may have environmental benefits.

##### 2.1.4 Can an issuer issue a Green, Social, or a Sustainability Bond where not all the proceeds are directed towards Green and/or Social Projects?

No. GSS Bonds must have an amount equal to 100% of the net proceeds allocated to Green and/or Social Projects. As projects may disburse over time, there may be temporarily unallocated bond proceeds, and issuers should explicitly state how unallocated proceeds will be/are temporarily invested (see Q 2.2.1). Where an eligible asset has matured, been prepaid or no longer qualifies under the issuer's eligibility criteria, the issuer should disclose the temporary use of the relevant proceeds pending allocation to eligible Green and/or Social Projects.

## 2.1.5 Can the proceeds of a GSS Bond issued be used to invest in GSS Bonds?

GSS Bonds should not typically qualify as use of proceeds for a GSS Bond other than for temporary management of proceeds' purposes prior to allocation to eligible projects. This reflects a concern that the impact of the same underlying project(s) may be reported both by the original GSS Bond issuer and by the issuer of the subsequent GSS Bond ("double-counting").

In the case of Secured GSS Bonds<sup>7</sup>, or those issued to support the growth and development of GSS Bonds in emerging capital markets, the nature of the instrument, including the relationship between the instrument and any underlying collateral or derivative GSS Bonds, as well as the impact, should be transparently communicated to the market to avoid potential "double counting" complications. In relation to Secured GSS Bonds, see Q 3.2 for more information.

A bond issued in the context of a liability management transaction, in which an existing GSS Bond is bought back and refinanced, may qualify as a GSS Bond if it is aligned with the Core Components of the GBP/SBP (see Q 2.2.4). This recognises that such refinancing can be a routine process by which issuers optimise their access to markets.

## 2.1.6 Can eligible assets be refinanced with the proceeds of a Green, Social or Sustainability Bond before the original borrowing has matured?

Yes. In addition to providing clarity on the assets to be refinanced, the issuer should make clear when the original financing is due to mature. As the proceeds of any GSS Bond should not be used contemporaneously against the same asset more than once, in the overlapping period, the issuer should ensure that the proceeds raised from the new financing will not be used for any purposes that would damage the integrity of the GSS Bond market.

## 2.1.7 Can long-dated green, social or sustainability assets be (re)financed by (multiple) consecutive Green, Social or Sustainability Bonds?

Long-dated green assets, including their maintenance and/or upgrade costs, may be (re)financed by issuance of multiple consecutive GSS Bonds subject to key disclosures by the issuer. The easiest way to do this may be in a portfolio-based 'Management of Proceeds' approach where multiple Green Bonds finance one single pool of assets and expenditures. Specifically, the issuer should make explicit: the age and remaining useful life of the assets, as well as any (re)financed amounts; and their (re)evaluation of the continuing environmental and/or social benefits of all eligible projects/assets and, as appropriate, that of an external reviewer. This information should be communicated to the market at the time of issuance and be made publicly available on the issuer's website as part of the overall information on the related GSS Bond.

## 2.1.8 Can existing assets that are pledged as collateral against another borrowing be refinanced through a Green, Social or Sustainability Bond?

Yes, unless the eligible assets are included in the use of proceeds of an outstanding GSS Bond or another green, social or sustainability financial instrument. The issuer should make clear that the assets are pledged as collateral, as well as conforming to all Core Components of the GBP/SBP. The refinancing should be done within the useable lifetime of the green, social or sustainability asset (see also Q 2.1.7).

## 2.1.9 Can eligible assets that are funded through a Green, Social or Sustainability Bond be used as collateral in other financing deals?

Yes, as long as there is no "double-counting" of eligible Green and/or Social Projects between different GSS bonds. The issuer should make clear that the eligible assets have been or may be pledged as collateral in financing transactions in their reporting on the use of proceeds and/or in their GSS Bond framework.

<sup>7</sup> For Secured GSS Bonds, see Chapter 3.

### 2.1.10 When an underlying investment that is financed or refinanced by a Green/Social/Sustainability Bond becomes past due, can the issuer include the investment in their reporting?

Yes, as long as there is certainty that the expected impact has or will materialise independently of the debt being past due. Conversely, if the expected impact has not been achieved or is no longer likely to be achieved, the proceeds allocated to this project should be reallocated to new eligible Green and/or Social Projects where possible. The issuer should report on the balance of any unallocated proceeds, and the types of temporary investments made with such balance.

### 2.1.11 Can an issuer issue ‘theme’ bonds focusing only on one category out of a more general Green/Social/Sustainability Bond framework?

Yes, a GSS Bond framework can allow the bond proceeds to be allocated to a project(s) belonging to one or several defined categories. An issuer may issue bonds focusing on different “themes” using a single framework that encompasses all the relevant themes, or they may highlight thematic differences in their approach to any of the Core Components of the GBP/SBP through establishing additional frameworks. Whatever the focus of the bond or framework, it is helpful to ensure that all issuance communications and documentation state clearly whether the bond is aligned with the Core Components of the GBP/SBP. When raising funds for climate transition-related purposes, it is recommended that issuers reference the recommendations outlined in the CTFH in their reporting.

### 2.1.12 Can GSS Bonds claim to fund the Net Asset Value (NAV) of a project and not CapEx or OpEx? Are there exceptions made for Real Estate Investment Trusts (REITs)?

Since GSS bonds are based on the use of proceeds concept, issuers should demonstrate that an amount equal to 100% of the net proceeds has been allocated to assets, investments and other related and supporting expenditures such as R&D with clear environmental and/or social benefits. Investors will typically expect issuers to allocate and report on amounts representing actual cash outflows and not the market value of assets, as the latter may be materially different than the related expenditures incurred by issuers. The types of expenditures that can be financed with the proceeds of GSS Bonds should be specified by issuers in their GSS Bond frameworks/documentation. REITs may, for example, consider different types of expenditures depending on whether they are used for the acquisition of buildings, major refurbishment of existing buildings or individual renovations. Issuers should also detail the use of proceeds in their allocation reports as well as in impact reports that reflect how the projects contribute to long term positive environmental and/or social impacts.

### 2.1.13 Can GSS bond proceeds be used to invest in (buy equity/shares of) pure play companies<sup>8</sup>? If so, is there any specific detail they need to provide in order to ensure that the underlying companies continue to remain pure plays?

The Principles make clear that bonds issued by pure play companies that do not follow the four Core Components of the Principles should not be deemed GSS Bonds. Likewise, issuers qualifying equity investments in pure play companies as GSS Bond use of proceeds should ensure that their issuance follows all Core Components, and, where possible, Key Recommendations. This is more likely to be achievable where issuers allocate to direct investments in companies rather than secondary market purchases of publicly traded instruments, and where they have a majority stake in the pure play company. Investors may also view it less favourably than capital investment for new projects.

Issuers should provide information on how their investments are expected to lead to meaningful impact, for example by supporting the growth of the pure-play company’s business or product offerings. Investors may expect to see evidence of increased capitalisation, free cash flow or other financial and business indicators as evidence of how the investments are expected to be associated with tangible environmental and social benefits. As the likelihood of creating such benefits is associated with the ‘pure play’ nature of the company, issuers should disclose their internal processes for monitoring and evaluating the company’s business activities over the tenor of the bond and the criteria that they would apply to determine if their investments have reasonable expectation of leading to meaningful impact. If the expected impact has not been achieved or is no longer likely to be achieved, the proceeds allocated to this investment should be reallocated to new eligible Green and/or Social Projects where possible.

<sup>8</sup> See: Note 1 – Appendix 1 of the GBP and the SBP and Q 1.12

Investors may expect pre-issuance impact disclosure and details on: 1) the extent to which ESG factors have been incorporated into the issuer’s due diligence; 2) the sustainability strategy and performance of the pure-play company; 3) how this acquisition fits into the sustainability strategy of the issuer and may impact its performance (e.g. increased revenues’ exposure to low-carbon activities or changes to its greenhouse gas emissions performance and target).

### **2.1.14 Can GSS bond proceeds be used to invest in a fund (e.g., a renewable energy fund)? If so, is there any specific detail issuers need to provide in order to ensure that the underlying companies continue to remain pure plays?**

The Principles make clear that bonds issued by pure play companies, (i.e. organisations that are mainly or entirely involved in environmentally and/or socially sustainable activities), that do not follow the four core components of the Principles should not be deemed GSS bonds. Likewise, Issuers qualifying fund investments in pure plays and/or eligible projects as GSS bond use of proceeds should ensure that their issuance follows all core components, and, where possible, key recommendations.

Funds that invest in GSS Bonds, however, should not typically qualify as use of proceeds for a GSS Bond. This reflects a concern that the impact of the same underlying project(s) may be reported both by the original GSS Bond issuer and by the fund and therefore, by extension, the issuer of the subsequent GSS Bond (“double-counting”).

Issuers should provide information on how their investments are expected to lead to meaningful impact, for example by supporting the growth of the pure-play fund’s investments. This is more likely to be achievable where issuers are making investments in new funds rather than secondary market purchases of publicly traded instruments. Investors may also view it less favourably than capital investment for new projects.

Investors may expect to see evidence of increased capitalisation, or other financial and business indicators as evidence of how the fund’s investments are expected to be associated with tangible environmental and social benefits. As the likelihood of creating such benefits is associated with the ‘pure play’ nature of the fund, issuers should disclose their internal processes for monitoring and evaluating the fund’s business activities over the tenor of the bond and the criteria that they would apply to determine if their investments have reasonable expectation of leading to meaningful impact. If the expected impact has not been achieved or is no longer likely to be achieved, the proceeds allocated to this investment should be reallocated to new eligible Green and/or Social Projects where possible.

Investors may expect pre-issuance impact disclosure and details on: 1) the extent to which ESG factors have been incorporated into the issuer’s due diligence; 2) the sustainability strategy and performance of the pure-play fund, including the business exposure to any activities not classified as environmentally and/or socially sustainable; 3) how this acquisition fits into the sustainability strategy of the issuer and may impact its performance (e.g. increased revenues’ exposure to low-carbon activities or changes to its greenhouse gas emissions performance and target).

## B Green Bonds

### 2.1.15 Do all Green Bonds have to be climate related?

No, the GBP explicitly recognise several broad categories of eligibility for Green Projects, which contribute to environmental objectives such as: climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control. The list of eligible Green Project categories, which is not exhaustive, can be found in the GBP's Use of Proceeds section and the [Green Project Mapping](#).

### 2.1.16 Are all hydropower projects eligible for a Green Bond, regardless of size?

The GBP indicate that renewable energy projects, such as hydropower, are potentially eligible to be financed by a Green Bond, regardless of their size. Furthermore, the GBP recommend that issuers should clearly communicate to investors their environmental sustainability objectives overall, and how they will identify and manage potential environmental and social risks associated with the projects selected to be financed by a Green Bond. (See also Q 1.15) The appointment of (an) external review provider(s), to advise on the environmental sustainability and expected impacts and risks of the projects to be financed, is a Key Recommendation of the GBP. It should be noted that investors, stock exchanges, index providers and other market participants consider Green Bonds against their own environmental assessment standards and investment criteria, including broader ESG requirements.

### 2.1.17 Would a project be eligible for inclusion in a Green Bond if it were to improve the energy efficiency of projects associated with fossil fuel production or industrial processes linked to fossil fuel production?

They are potentially eligible, as long as the bond funding such projects is aligned with the Core Components of the GBP. The GBP recommend that issuers should clearly communicate to investors their environmental sustainability objectives, and how they will identify and manage potential environmental and social risks associated with projects. A Key Recommendation of the GBP is that issuers use (an) external reviewer(s) to advise on the environmental sustainability including, for instance, the project's degree of alignment with the objectives of the Paris Agreement, and expected impacts and risks of the projects to be financed. Investors, stock exchanges, index providers and other market participants also consider Green Bonds against their own environmental assessment standards and investment criteria that may set target thresholds for energy efficiency improvements and include broader ESG requirements. Some of these market participants and stakeholders exclude bonds funding fossil fuel-related projects, while others may, for instance, include energy efficiency investments that do not facilitate a long-term lock-in of high carbon infrastructure. Several organisations, including Multilateral Development Banks, Development Finance Institutions and the Climate Bonds Initiative have developed standards for energy efficiency in the fossil fuel sector that market participants are encouraged to reference.

### 2.1.18 Is there an eligible Green Project category in the Principles, which would consider carbon offsetting?

Carbon offsetting has not been envisaged within the GBP list of eligible projects, only carbon reduction. While the list of Green Project categories is not exhaustive, it conforms to the most widely supported categories for green investments. As carbon offsetting is less impactful than carbon reduction, and would fall under operating expenditures rather than capital expenditures, bonds focusing on such projects may meet with more limited investor demand.



## 2.2 Management of Proceeds

### 2.2.1 How long does an issuer have to allocate funds to projects and how will funds be used in the meantime?

It is understood that disbursement of funds to projects can, in some cases, take time. It is recommended that the funds raised from a GSS Bond should be applied to Green and/or Social Projects as soon as possible. Investors routinely check progress on the allocation of funds when annual reports are received. They may decide to divest if they are dissatisfied with the progress.

In cases where bond proceeds are placed temporarily before allocation, there is a strong investor preference that issuers use and disclose liquid temporary investments pending allocation of proceeds to Green and/or Social Projects. Additionally, some investors have a strong preference that liquid temporary investments should be ESG/green products as much as possible, or be subject to ESG criteria.

### 2.2.2 Can an issuer raise GSS Bond proceeds in one currency and utilise them for Green and/or Social Projects in another currency without having to do an FX swap or intercompany loan?

The GBP/SBP guidance is that the net proceeds of a GSS Bond, or an amount equal to the net proceeds, should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner, which would include an evaluation of any currency mismatches. The reference to “an amount equal to these net proceeds” allows for the use of different currencies to finance eligible Green and/or Social Projects without necessarily using FX swaps or intercompany loans.

### 2.2.3 How should you deal with surplus money arising when Green, Social or Sustainability Bond proceeds exceed Green and/or Social Projects?

The Principles state that the proceeds of the bond will be exclusively applied to (re)finance eligible Green and/or Social Projects. They nevertheless recognise that there may temporarily be unallocated bond proceeds, and that the issuer should make known the intended types of temporary placement of any unallocated bond proceeds. Issuers may consider temporary placements (preferably thematically relevant/ESG placements) pending allocation to eligible Green and/or Social Projects or buying back their previous GSS Bonds in case of a permanent shortfall. Issuers should seek to ensure that, in the selection of such temporary investments, they do not damage the integrity of the GSS Bond market.

### 2.2.4 Is it possible to buy back conventional, Green, Social or Sustainability Bonds with proceeds of a new Green, Social or Sustainability Bond?

Market operations, often referred to as liability management such as buybacks and reissuing, are an essential part of the capital markets. It is possible for the proceeds of a new GSS bond to be used to repay a conventional or existing GSS bond at maturity or as part of a liability management program, as long as an amount equivalent to the net proceeds of the new GSS bond is earmarked to fund existing and/or future eligible projects that have not been earmarked against any GSS Bond issuance that will remain outstanding. In all such cases, the issuer should ensure that any new GSS Bond follows all the Core Components of the GBP and/or the SBP.

## 2.3 Reporting

### A Common features

#### 2.3.1 Is there a standard methodology for reporting on the impact of the GSS Bond proceeds?

Transparency is of particular value in communicating the expected and/or achieved impact of Green and/or Social Projects, including through the use of qualitative performance indicators and, where feasible, quantitative performance measures. The GBP and SBP seek to encourage harmonised impact reporting by providing core principles for reporting the impact of Green and/or Social Projects, as well as through suggested metrics and the provision of templates that cover most eligible Green and/or Social Projects. These suggested metrics are available on the [sustainable finance section](#) of ICMA's website.

As of June 2022, there are suggested impact metrics for all eligible Green Project categories listed in the GBP (renewable energy, energy efficiency, sustainable water and wastewater management, waste management and resource efficiency, clean transportation, green buildings, biodiversity, climate adaptation, circular economy and eco-efficiency projects and living natural resources and land use). Impact metrics and templates are available for the aforementioned Green Projects categories individually, and are also collated in the [Harmonised Framework for Impact Reporting for Green Bonds](#), which also highlights additional recommended disclosures of the key underlying methodology and/or assumptions used in the quantitative determination.

For impact reporting on Social Bonds, an illustrative list of quantitative output, outcome and impact indicators is provided in the [Harmonised Framework for Impact Reporting for Social Bonds](#). This Framework also encourages the referencing to widely recognised social objectives, as represented, for instance, by the SDGs<sup>9</sup>.

#### 2.3.2 How often and for how long is an issuer expected to report on Green, Social, Sustainability?

Issuers should make and keep readily available up to date information on the disbursement of funds, to be renewed annually until full allocation, and as necessary thereafter in the event of material developments.

Communicating the expected impact of Green and/or Social Projects is also particularly appreciated by investors. The GBP and SBP recommend the use, where feasible, of quantitative performance measures of expected impact and issuers with the ability to report achieved impacts are encouraged to include those also in their regular impact reporting.

Issuers are welcome to report throughout the life of the bond and are encouraged to make available the latest report either on their website or in another publicly available space, with the date that it was prepared. Such dated impact reports should be available for the lifetime of the bond. It is recommended that issuers clearly communicate the location on their website of their dated impact reports, of their GSS Bond framework and/or their [information template](#)<sup>10</sup>.

#### 2.3.3 What kind of reporting should the issuer consider pre-issuance of GSS Bonds?

As the GBP and SBP recommend a clear process and disclosure for issuers, which investors, banks, underwriters, placement agents and others may use to understand the characteristics of any given GSS Bond, this would require pre-issuance reporting on the processes established to ensure alignment of their bonds with the Core Components of the GBP or SBP. A Key Recommendation of the GBP/SBP is that this be done through providing a publicly available Green Bond or Social Bond framework prior to issuance together with any external review. Additional details may also be provided through, for example, FAQs and/or the [information template](#).

Pre-issuance, in accordance with the GBP and SBP's "Process for Project Evaluation and Selection," issuers are encouraged to provide their overarching objectives, strategy, policy and/or processes relating to environmental/social sustainability, as well as any green/social standard or certifications relevant to project selection. The [Pre-issuance Check List for Green Bonds](#) offers a pragmatic and condensed tool for issuers and investors of Green Bonds, as does the [Pre-issuance Check List for Social Bonds](#) for issuers and investors in Social Bonds

<sup>9</sup> See the [Mapping to the Sustainable Development Goals](#)

<sup>10</sup> The Information Template enables GSS Bond issuers to publicly confirm their alignment with the GBP/SBP.  
[Green Bond Information Template](#)  
[Social Bond Information Template](#)  
[Sustainability Bond Information Template](#)

For issuers from GHG intensive sectors, the importance of the issuer's overall decarbonisation trajectory is even higher, and it is recommended that such issuers also provide disclosures aligned to each of the four elements of the CTFH in order to credibly articulate how the identified use of proceeds fits into the achievement of the overall strategy.

### 2.3.4 How should an issuer report impact for Green and/or Social Projects where the issuer has provided only partial financing?

As per the Core Principles and Recommendations for Reporting in the [Harmonised Frameworks for Green Bonds or Social Bonds](#), issuers are encouraged to report the impacts of the pro-rated share of the total project cost that they are financing, and to provide the total project cost when available, subject to confidentiality considerations. Issuers who do so are further encouraged to provide confirmation that they have chosen to report using a pro-rata methodology. Where issuers have used estimates to determine their share of financing of the total project cost, they should clearly state so. In circumstances where the issuer believes an alternative impact reporting methodology is appropriate, issuers are encouraged to explain their rationale, and to provide transparency regarding the share of the project they financed as well as the share of the impacts they are reporting.

### 2.3.5 Should an issuer report on actual and/or estimated impact?

The impact report should illustrate the expected green/social impact made possible as a result of projects to which GSS Bond proceeds have been allocated. Reporting may be based on ex-ante estimates of expected annual impacts for a representative year, and/or annual actual impacts (ex-post) where available, once a project is completed and operating at normal capacity.

## B Green Bonds

### 2.3.6 How are metrics chosen to report on the environmental impact or efficiency of Projects? Who is in charge of this choice?

To aid harmonised metrics across Green Bond issuers, the GBP Impact Reporting Working Group ("IRWG") has developed a set of best practice [impact reporting metrics](#) for each of the eligible Green Bond Project categories. The broad membership of the IRWG, which includes International Financial Institutions, environmental NGOs, investors and Green Bond issuers, have contributed to the suggested metrics. While reporting under the proposed metrics should allow investors to aggregate and/or compare Green Bond issues more easily, the proposed metrics are, nonetheless, only suggestions that issuers may adopt, adapt or ignore in favour of alternative metrics, as they see fit.

### 2.3.7 Do the GBP provide any recommendation on these metrics and on their definition, choice and control?

The GBP offer suggestions for best practice in the [impact reporting metrics](#) for Green Bond proceeds based on the input from several industry working groups focused on the topic. The GBP welcome and encourage continued collaboration and feedback on the proposed metrics, baselines and benchmarks.

### 2.3.8 Do the GBP provide guidance for issuers to select Projects aligned with a decarbonisation pathway consistent with a below 2° scenario?

While many of the projects funded by the Green Bond market support mitigation efforts towards a low carbon transition, Green Bond eligible categories are not solely limited to climate focused projects. Green or Sustainability Bond and Sustainability-Linked Bond issuers can consider the use of a wide variety of currently available scenario providers. For example, the TCFD offers a list of providers and possible scenarios in its Technical Supplement<sup>11</sup>, and the Principles for Responsible Investment also provides a registry of publicly available climate scenario tools<sup>12</sup>. While a range of scenarios can be useful for scenario planning, in the context of setting a transition strategy, a decarbonisation pathway should have the objective of limiting climate change ideally to 1.5°C and, at the very least, to well below 2°C. Guidance on setting a climate transition strategy, including possible references for science-based targets and transition pathways is provided by the CTFH.

<sup>11</sup> Task Force on Climate-related Financial Disclosures, Technical Supplement, The Use of Scenario Analysis in Disclosure of Climate-Related Risks and Opportunities, June 2017

<sup>12</sup> See: <https://www.unpri.org/climate-change/providers-of-scenario-analysis-and-climate-risk-metrics/9135.article>

## C Social Bonds

### 2.3.9 Are Social Projects required to identify a target population?

Issuers should identify the target population(s) for which positive social outcomes are anticipated and include target population(s) in reporting wherever possible. It is acknowledged that a Social Project could benefit people beyond the identified target population. The notion of ‘target population(s)’ may also be context-specific in that an individual considered underserved in one sector or country context, may not be considered underserved in another. Where applicable, issuers are encouraged to provide information on such context.

In instances where there may be broad social issues that impact the general population, for example public health issues, polluted water supply, etc., the target population could be the entire population rather than a particular segment of the population. In such cases, issuers are expected to provide:

- an explanation of how the social issue is expected to be addressed by the project and the impact on the general population;
- any safeguards and measures to ensure that especially vulnerable parts of the population are not excluded from the project benefits due to cost aspects, project location or general access, etc.; and
- to the extent possible, identifying any segments of the general population that are expected to especially benefit from the project.

### 2.3.10 How does a positive social outcome differ from a social issue?

The SBP stipulate that Social Projects directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially but not exclusively for a target population(s). A social issue is defined in the SBP as one that threatens, hinders, or damages the well-being of society or a specific target population. A Social Project could also be founded on a project’s aim to achieve positive social outcomes i.e. benefits or changes to specific individuals and/or groups that are expected to occur as result of the project. The [Harmonised Framework for Impact Reporting for Social Bonds](#) considers this in more detail.

### 2.3.11 Is there a standard methodology to report on jobs supported or jobs maintained as a result of Micro Small and Medium-sized Enterprises (MSME) financing?

The SBP encourage issuers to refer to established sources for guidance on indicator methodology and to disclose the methodology used as part of their impact reporting. For guidance on job-related indicators, including jobs supported or jobs maintained, issuers could refer to sources such as IRIS ([Jobs Maintained at Directly Supported/Financed Enterprises](#)).

## 3. Secured GSS Bonds

### 3.1 Is it possible to allocate the proceeds from a Secured GSS Bond to Eligible Projects which are not contained within, or necessarily even related to, the Secured GSS Bond itself?

Yes. This would be possible using the Secured GSS Standard Bond method detailed in (ii) of paragraph 4 of the appendix to the GBP/SBP. There is no requirement for such eligible Green and/or Social Projects to be related directly to the collateral pool, although it is also possible for such eligible Green and/or Social Projects to secure the specific bond in whole or in part.

This would not be possible using the Secured GSS Collateral Bond approach.

### 3.2 For Secured GSS Bonds, how are assets that are not originated by the issuer, originator or sponsor of the vehicles included?

The inclusion of “issuer”, “originator” or “sponsor” or their group affiliates, as the case may be and as appropriate under 4(ii) of the appendix to the GBP/SBP, should allow for parties responsible for organising a secured transaction to apply the use of proceeds towards Green and/or Social Projects in line with the GBP/SBP/SBG at the appropriate entity level. “Sponsor” is intended to cover situations where the assets have been acquired from other parties. Please note that the term “sponsor” is not intended to correspond to the regulatory definitions per e.g. EU/US/UK risk retention regulations, but is rather supposed to convey that it is, generally, the entity which is responsible for organising the transaction and in control of it, including for publishing the GSS Bond framework.

### 3.3 Can the Green or Social Projects associated with a Secured GSS Bond be used again in a further green or social financing?

As referenced in Q 2.1.9, the risk of “double counting” in relation to Secured GSS Bonds arises primarily from the fact that Green and/or Social Projects financed via the deployment of the proceeds of other types of GSS Bonds (e.g. a Standard GSS Use of Proceeds Bond or a Secured GSS Standard Bond) or another green or social financial instrument, could themselves theoretically be used as collateral for a Secured GSS Collateral Bond. However, this would not be aligned with the principle of avoiding “double counting” and as such is not permitted under the GBP and SBP, as would any other application that resulted in assets being reported as forming part of the use of proceeds of more than one issuance/financing (secured, or otherwise), in line with Qs 2.1.5 and 2.1.9. At no time should the same Green or Social Project’s net proceeds be concurrently allocated to more than one outstanding GSS Bond. This does not preclude refinancing however as once a GSS Bond is repaid the Green and/or Social Project may be used as collateral for a further GSS Bond. Investors may seek issuer disclosures as to the age and the remaining useful life of such assets, as well as their (re)evaluation for continuing environmental and/or social benefits (see Q 2.1.8 in that respect). This principle applies equally to Secured GSS Bonds as any other type of green or social use of proceeds instruments.

In the case of secured bond structures such as securitisations, the GSS Bond label should only be made applicable to the capital market instrument being issued. Some secured bond structures such as securitisations can have various back-to-back financing arrangements between the various entities involved in the transaction, however only the final capital market instrument should claim the GSS Bond label. For example, in an Asset-Backed Commercial Paper (ABCP) transaction, there could be various back-to-back financings between the transaction originator, the ABCP conduit sponsor and the ABCP issuer, however only the ABCP is the capital markets instrument. So, only the ABCP can claim the GSS Bond label (the originator can say they have obtained green or social financing for the Green/Social Project but the back-to-back financings cannot claim the GSS Bond label as this would be double counting). Each time the ABCP is refinanced (“rolled over”) the new ABCP can continue to claim the GSS Bond label for as long as it continues to finance the underlying Green and/or Social Project and that the environmental and/or social benefits of the assets/projects have been reaffirmed (see Q 2.1.1 and 2.1.8). Once the relevant capital market financing has been repaid (in the above example because the financing arrangement between the transaction originator and ABCP conduit sponsor had matured or been refinanced) then the relevant originator may however refinance the collateral by other means, for example refinancing into its own Secured Green Bond structure in the public ABS market.



Another example is a covered bond guarantor which acts as guarantor for a Secured GSS Bond whilst also, separately, acting as issuer of other secured or unsecured bonds. In these circumstances it is possible for such other instruments to be labelled as GSS Bonds provided that they comply with all parts of the GBP and in particular that there is no “double counting”.

### 3.4 What are the differences between traditional secured bonds (such as covered bonds) and securitisations from the perspective of the GBP/SBP?

For the avoidance of doubt, the core components of the GBP/SBP apply to all use of proceeds instruments, including all forms of Secured GSS Bonds. The dual-recourse nature of a covered bond is the most relevant difference and Appendix I of both the GBP and SBP published in June 2022 has been clarified to ensure that all secured instruments, including dual-recourse instruments, such as covered bonds, fall under the Secured GSS Bond definition to ensure a consistency of approach. For each Secured GSS Bond, the issuer, originator or sponsor should clearly specify in its Bond framework and also in the bond marketing materials, offering documentation or by other means which of the two methods under the definition of Secured Green Bond and/or Secured Social Bond in Appendix I of the GBP and/or SBP respectively, is being applied, i.e. whether it is a Secured GSS Collateral Bond or a Secured GSS Standard Bond.

### 3.5 What are the reporting requirements in the case of a Secured GSS Bond? Are these the responsibility of the issuer, originator or sponsor?

The reporting requirements from the perspective of the GBP/SBP are in line with other forms of GSS Bond (see Q 2.3.1 and seq.), whilst acknowledging that certain market segments such as securitisation have substantially higher reporting thresholds as a result of both regulation and market practice that are also necessary. The reporting requirements for a Secured GSS Bond can be satisfied by either the issuer, originator or sponsor (or the appropriate group affiliate thereof), as per the relevant Green, Social or Sustainability Bond framework.

### 3.6 Are synthetic bonds included in the definition of Secured GSS Bond?

Synthetic bonds are not excluded from the definition of Secured GSS Bond. However, they do require further considerations that are not applicable to other Secured GSS Bond categories. Issuers should ensure there is no double counting of eligible green/social projects between Synthetic Secured GSS bonds and other types of GSS Bonds.

Where a Synthetic Secured GSS Collateral Bond approach is being taken, it is expected that the reference entities (or equivalent exposures) should all be Green and/or Social Projects on the balance sheet of the issuer, originator or sponsor and not used for the proceeds of any other GSS Bond(s).

Where a Synthetic Secured GSS Standard Bond approach is being taken, it is recommended that the relevant issuer, originator or sponsor consider for example, capital released, risk weighted assets’ (RWA) benefit or other appropriate means of measuring the full impact of the transaction as may be defined in the relevant framework, via the issuance that is to be redeployed into Green and/or Social Projects, in relation to the use of proceeds being applied in accordance with the GBP/SBP, rather than solely the nominal proceeds of the relevant note issuance. This will require particular consideration, noting that the calculation of that capital amount at the point of issuance and subsequently of the capital amount deployed into Green and/or Social Projects, is typically an internal calculation of the issuer, originator or sponsor and is consequently less transparent for investors.

As with any other type of GSS Bond, there should be no “double counting” of Green and/or Social Projects under a Synthetic Secured GSS Bond with any other type of outstanding Green and/or Social financing. i.e. the reference entities (or equivalent exposures) under an outstanding Synthetic Secured GSS Collateral Bond or the newly originated Green and/or Social Projects associated with the redeployed capital under an outstanding Synthetic Secured GSS Standard Bond should not be “double counted” with any other type of Green and/or Social financing (however this would not prevent the refinancing of such Green and/or Social Projects after the redemption of the Synthetic Secured GSS Bond).



### 3.7 For Secured GSS Standard Bonds, are there sustainability criteria relating to the collateral that can be held?

Investors should form their own views as to whether, notwithstanding that the use of proceeds will be applied toward eligible Green and/or Social Projects in line with the GBP/SBP, the collateral in a specific Secured GSS Standard Bond transaction is in line with their investment mandate. Issuers, originators and/or sponsors (namely, the relevant entity responsible for reporting in accordance with the GSS Bond framework, as appropriate) are encouraged to provide sufficient disclosure to enable them to do so.

### 3.8 Should specific classes or tranches of a Secured GSS Standard Bond that are GSS Bonds have separate ISIN codes?

Yes. Where certain notes issued as part of a Secured GSS Standard Bond are GSS Bonds and others are not, in order to ensure that investors can clearly distinguish between the two, they should form separate class(es) of notes, should be allocated separate ISINs and should be clearly labelled in all relevant marketing materials. Please note for the avoidance of doubt that, by definition, all issuances under a Secured GSS Collateral Bond approach would be considered a GSS Bond so it would not be possible to issue certain tranches as GSS Bonds and others which are not. Hence this approach, requires sufficient eligible Green or Social collateral for all ISINs in the transaction.

### 3.9 Is it possible to issue a Secured GSS Bond that is partly collateralised by Green and/or Social Projects at the time of issuance, where the remaining proceeds will be allocated to Green and/or Social Projects thereafter?

Yes, this situation can be accommodated via the issuance of a Secured GSS Standard Bond. The GSS Bond framework established by the issuer, originator or sponsor (as appropriate) should outline how the proceeds may be managed for example, at the time of issuance by the issuer, in whole or in part, to acquire/finance/refinance the initial Green and/or Social Projects and the remainder of the proceeds to be allocated thereafter to eligible Green and/or Social Projects. This approach is not however compatible with a Secured GSS Collateral Bond, where the transaction should be fully collateralised by one or more specific Green and/or Social Project(s) aligned with the GBP/SBP, at the time of issuance and where the net proceeds have been exclusively applied to finance or refinance the Green and/or Social Project(s) securing the specific bond (however this does not preclude a Secured GSS Collateral Bond having a revolving collateral pool, as long as all collateral securing the bond constitutes Green and/or Social Project(s) aligned with the GBP/SBP; nor would this preclude a Secured GSS Collateral Bond transaction with a 'ramp-up' period, where some of the bond proceeds are temporarily held in cash, or cash equivalents, for a short period of time prior to being fully invested in Green and/or Social Project(s) such that after the ramp-up period all the collateral securing the bond constitutes Green and/or Social Project(s) aligned with the GBP/SBP).

### 3.10 Is it possible to issue a Secured GSS Bond where a small part of the bond proceeds are used to fund transaction costs and expenses and/or reserve funds?

Yes, under a Secured GSS Bond the "net proceeds" will be exclusively applied to finance or refinance Green and/or Social Project(s) aligned with the GBP/SBP. The use of the term 'net proceeds' within the context of Secured GSS Bond structures such as securitisations may take account of where part of the bond proceeds is used to cover senior items such as (inter alia) transaction costs, expenses and reserve funds.

### 3.11 Is it possible to issue a Secured GSS Bond where some creditors rank super senior, ahead of the Secured GSS Bond?

Yes, the GBP/SBP appendix describes a Secured GSS Bond as one where "generally", the cash flows of assets are available as a source of repayment or assets serve as security for the bonds in priority to other claims. The use of the term 'generally' is designed to capture secured bond structures such as securitisations where it is customary to have some creditors that rank senior to bondholders in the priority of payments (such as trustees, servicers and other transaction counterparties essential for the running and operation of the transaction).

### 3.12 Should the duration of the eligible Green and/or Social Projects be correlated with the maturity of the Secured GSS Bond?

Generally, Secured GSS Bonds should follow the same duration consideration as for standard green unsecured bonds, where for amortising Secured GSS Bonds (including, but not limited to, securitisation structures) the duration for these purposes may be considered to be the expected maturity (weighted average life) of the bond under standard pricing assumptions.

However, there are certain additional considerations relating to Secured GSS Collateral Bonds given the requirement for all of the underlying collateral pool to consist of eligible Green and/or Social Projects under this method. A core principle of any secured bond is that the secured collateral must at least match the term of the bond (after allowing for any customary enforcement or workout periods) – otherwise the bond would not be fully secured. If a bond is not secured it would not be using the Secured Green Bond limb of the GBP.

For Secured GSS Collateral Bonds, the duration of the eligible Green and/or Social Projects may be different to the term of the bond for amortising structures such as securitisations where the bonds amortise in line with the underlying collateral (such that the bonds remain secured by the eligible Green and/or Social Projects for the life of the transaction).

For revolving transactions, in the case of a Secured GSS Collateral Bond, the assets can be of a shorter term than the relevant duration requirement as specified above. This would be acceptable if the eligibility criteria ensure the replenished collateral continues to consist solely of eligible Green and/or Social Projects.

### 3.13 Is it possible to structure a Secured GSS Bond in a structure which is secured by both green/social and non-green/social assets?

Yes, this is possible but only under limb 4 (ii) of Appendix I of the GBP/SBP – as a Secured GSS Standard Bond. For a Secured Green Collateral Bond, all of the underlying assets (other than the specified exclusions for e.g., reserves) need to consist of eligible Green and/or Social Projects.

### 3.14 Under what circumstances can transactions be considered as Secured GSS Standard Bonds versus Secured GSS Collateral Bonds, and is it possible for some or all of the assets within the collateral pool of a secured structure to be allocated as eligible Green and/or Social Projects for a separate GSS bond issuance?

If a programme has a single asset pool and all of the underlying assets consist of eligible Green and/or Social Projects and are supported by a framework which complies with the various core components of a GSS Bond (reporting, UoP, process for evaluation and selection, etc.) then by definition any and all bonds issued under that structure could be Secured GSS Collateral Bonds or Secured GSS Standard Bonds. If any part of the collateral portfolio consists of assets which are not eligible Green and/or Social Projects, other than the allowed exceptions relating to reserve funds etc., then any issuance from such a structure cannot be a Secured GSS Collateral Bond. Specific series issued under such a structure can still be considered as Secured GSS Standard Bonds, provided that the relevant parts of the GSS Bond Principles are adhered to and may or may not reference eligible Green and/or Social Projects within the portfolio itself (see Q 3.8).

For the avoidance of doubt, there is nothing in the Principles to preclude assets included within a secured structure from being allocated to a different GSS Bond (whether a Secured GSS Standard Bond or a Standard GSS Use of Proceeds Bond), provided that they do not breach the “double counting” principle. This would not be possible in the case of a Secured GSS Collateral Bond, as by definition the assets in such a structure would be being allocated to the relevant Secured GSS Collateral Bond and therefore to allocate to any other issuance would involve “double counting”.

## 4. Core Components of the SLBP

### 4.1 General features

#### 4.1.1 Are there any minimum requirements in terms of issuer's ESG performance or exclusions in terms of business activities or practices?

No, the SLBP do not prescribe a minimal level of ESG performance nor consider any exclusions. However, SLBs are best suited for issuers that have integrated their business strategy with their sustainability strategy and therefore are advancing in their ESG journey. Nonetheless, when climate change is identified as a core, relevant and material issue for a given issuer (from a strategic, operational and impact perspective), the CTFH provides relevant guidance and pre-requisites when it comes to KPI materiality, climate strategy and expected disclosure.

Unless issuers choose to combine the GBP/SBP ('use of proceeds' format) with the SLBP, the proceeds of SLBs are intended to be used for general corporate purposes (or for general budgetary needs for sovereign SLBs). As a result, proceeds may be used to finance any kind of types of activities that the issuer is pursuing (see Q 1.2). However, it is the responsibility of the issuer to explain the credibility and ambition of their SLB and overall sustainability/transition strategy.

Many investors take into consideration the quality of the issuer's overall ESG profile. Investors may take into consideration the broader conduct of the issuer in order to evaluate the level of ambition of the chosen KPI(s) as well as to assess the likelihood of the issuer achieving the SPTs. Investors with a focus on sustainability may apply exclusion criteria and minimum requirements with respect to ESG performance.

#### 4.1.2 Can Sustainability-Linked Bonds be issued by issuers at the start of their transition journey i.e., issuers not yet able to claim alignment with the Paris Agreement or similar relevant benchmark on the theme the KPIs address, but taking ambitious steps in that direction?

SLBs are accessible to all issuers, regardless of sector, geography or level of sustainability provided selected KPIs reflect issues which are 'core', material, and relevant, and the associated targets are ambitious.

In the case of GHG emissions' reductions and performance targets, issuers may also – on a best-efforts basis, in a comply or explain spirit – seek to demonstrate alignment with the voluntary guidelines set out in the CTFH, which requires alignment with the goals of the Paris Agreement and sets out the recommended disclosures. This may be especially pertinent to issuers from "hard-to-abate" sectors in establishing a climate transition focus by aligning their SLB framework and targets with the guidance set out in the CTFH.

Many investors take into consideration the quality of the issuer's overarching sustainability and may apply a variety of exclusion criteria, and minimum requirements with respect to ESG governance, management and performance.

#### 4.1.3 How can issuers, investors and market participants measure the sustainability impact related to an SLB?

Whereas formally the impact of an SLB is related to the issuer's success in meeting what should be ambitious and robust SPTs, the impact of an SLB is also via its role as a reinforcement mechanism on the accountability of the issuer's overall and transparent commitment to core sustainability targets.

#### 4.1.4 What are the main differences between the SLBP and the Sustainability-Linked Loan Principles (SLLP)? Can a Sustainability-Linked Bond be used to refinance a sustainability-linked loan?

Both the SLBP and SLLP are voluntary guidelines that aim to incentivise material sustainability achievements by the borrower. Owing to the more public nature and (expected) broad distribution of SLBs, however, the SLBP provide more detailed indications on the definition and calibration of the Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs), and promote a higher level of transparency, requiring that the post issuance verification of the issuer's performance against these targets be made publicly available. This can consequently expose the issuer's strategy, goal-setting and deliverables to the broader market, with the potential for a higher impact on the issuer's reputation. Sustainability-Linked Bonds aligned with all Core Components of the SLBP can be used to refinance sustainability-linked loans.

#### 4.1.5 Are there any specific disclosure recommendations regarding issuers that have already established sustainability-linked loans?

No, the SLBP do not specify disclosure recommendations regarding already established sustainability-linked loans. As borrowers of sustainability-linked loans, SLB issuers that have already established such instruments are encouraged to publicly report information relating to the SPTs used (e.g. previous KPIs included and level of ambition and justification for a change). However, it is noted that as per the Sustainability-Linked Loan Principles, borrowers may choose to share this information privately with the lenders rather than making this publicly available.

By disclosing information regarding outstanding sustainability-linked loans (e.g. previous KPIs included and level of ambition) as part of their SLB communication, issuers could allow investors to holistically assess how their financing is linked to the issuer's sustainability targets. SLBs should be ambitious on a standalone basis and ongoingly. They should therefore not represent a step back from outstanding sustainability financing KPIs and SPTs.

## 4.2 Selection of KPIs

### 4.2.1 What do the SLBP mean by "material" KPIs?

The notion of materiality is multi-faceted. It can be understood from a few different vantage points:

- an economic lens or a strategic planning exposure (i.e. the E and/or S and/or G issues captured by the chosen KPIs are the ones that have the greatest impact on the relevant activity, strategic orientation and the issuer's operational and potentially financial performance). and/or
- a sustainability standpoint, where the ESG issues captured by the KPIs have the highest impact on the environment and/or society, whether to external stakeholders or internally).

Materiality maps such as SASB<sup>13</sup> (for corporate issuers specifically), and as reflected in the sector materiality matrix of the [Illustrative KPIs Registry](#), can provide helpful guidance for issuers.

Multiple KPIs may be relevant, even for a single tranche, especially where a 'basket' of KPIs is needed to holistically encompass a material sustainability theme, or in order to appropriately capture all the materiality dimensions of the issuer. Please see the description of core and secondary KPIs on the "Note to Users" tab of the [Illustrative KPIs Registry](#), for additional insight.

For a sovereign or sub-sovereign issuer, the notion of materiality means that it should reflect one of the most material sustainability challenges on the country or regional level.

The KPIs may involve policy indicators (e.g. GHG emissions after implementation of a carbon tax or progress towards net zero target) that governments can influence. A policy or intervention accompanied by an impact assessment that clearly outlines the expected outcomes and impact of the intervention may provide a more informed and balanced assessment of the country's progress in achieving its goals.

<sup>13</sup> The International Sustainability Standards Board (ISSB) is developing sustainability-related disclosure standards that will build on existing reporting initiatives such as SASB. <https://www.sasb.org/standards/materiality-map/>.

## 4.2.2 What are the benchmarks, standards or frameworks that can be used to identify relevant and material KPIs?

Issuers may reference or take inspiration from regulatory standards or taxonomies, as well as any internally or externally performed materiality assessment in the choice of relevant KPIs. Examples of external guidance and/or tools that issuers may reference include: the [Global Reporting Initiative](#) (GRI), the [Sustainability Accounting Standards Board](#) (SASB), the [TCFD](#), the [International Integrated Reporting Council's Framework, Accountability's Materiality Framework](#), and the various reports produced by the [EU Platform on Sustainable Finance](#). The [Illustrative KPIs Registry](#) available on ICMA's website includes a suggested sustainability 'materiality matrix' by sector, and provides core and secondary KPIs by sector, as well as an indicative list of global benchmark and sector initiatives for suggested KPIs.

When climate change is identified as a core, relevant and material issue for a given issuer (from a strategic, operational and impact perspective), the CTFH provides relevant guidance and pre-requisites when it comes to KPI materiality, climate strategy and expected disclosure. Several initiatives provide more detailed resources and guidance on the level of ambition to support climate-related KPIs, notably in line with a net zero decarbonisation pathway and regional, sector or international climate change scenarios. Several of these are listed in the [CTF Methodologies Registry](#).

It is important to identify the robustness of all data sources used for KPIs, including the reliability of the information providers, and the frequency, consistency and longevity of the indicator, given the dataset may have to be used over a long period. Where sovereign KPIs come from national statistics, such as household surveys, efforts should be made to use independent third-party verification (neutral, non-government controlled or influenced) to ensure that the statistics collected are accurate, reliable and lead to meaningful outcomes.

## 4.2.3 Can a third party ESG rating serve as KPI for a SLB?

In principle, an issuer's ESG rating as provided by an external sustainability/ESG rating agency may serve as KPI for a SLB. Issuers should clarify if they are using either an ESG rating as a whole, or specific E and/or S and/or G-related components of the overall rating as their target KPIs. Given diverging and evolving rating methodologies and rating scales, as well as other characteristics (e.g. subjectivity), where an ESG rating is not accompanied by other KPIs, issuers are expected to explain why an ESG rating may be the best indicator to reflect their core business ESG challenges and disclose the kind of rating (solicited vs unsolicited). In addition, issuers should be aware that they hold no direct influence on the evolution of their ESG ratings and, in choosing them as KPIs, they risk not reaching any set SPT(s).

There may also be regulatory or licensing constraints to using ESG ratings as KPIs that the issuer should consider.

## 4.2.4 Can "green" CapEx be used as a KPI?

An SLB in alignment with all core components of the SLBP may include a KPI related to "green" CapEx, as a 'means oriented' KPI. This may be especially relevant for industries where targeted CapEx may be an integral part of the decarbonisation/transition strategy of certain industries and may be presented as a percentage of the overall CapEx.

It is nonetheless, important to note that an increase in "green" CapEx does not guarantee the actual decarbonisation of a particular business model, depending on the sector.

Furthermore, there is currently no globally consistent definition or market understanding of what constitutes "green" CapEx. Issuers may, for instance, seek to use a jurisdictional reference, such as the EU Taxonomy<sup>14</sup>; seek external review of their green CapEx definition; and/or provide a rationale to support their definition.

In cases where a Scope 3 GHG emissions KPI/SPT is not feasible, issuers may consider using a "green" CapEx KPI as one of the potential supportive proxies for demonstrating their commitment and progress towards reducing GHG emissions in the industry.

<sup>14</sup> In this respect, see Commission Recommendation (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023H1425#:~:text=This%20Recommendation%20is%20addressed%20to,finance%20tools%20for%20this%20purpose>.



## 4.2.5 Can the KPIs be at project level? Or do they need to be at corporate level?

Yes, the KPIs can be at a project level provided that any such KPI fulfils the first and second Core Components of the SLBP in terms of KPI selection and calibration of the SPTs. In particular, this means that the KPIs should still be “relevant, core and material to the issuer’s overall business, and of high strategic significance to the issuer’s current and/or future operations”, which may be less clearly defined for KPIs that are solely project-related.

## 4.2.6 When the issuer is an issuing subsidiary within a larger group, should it use its own KPI or can it use group KPIs?

KPIs could be KPIs related to the group or set independently of the issuing entity, as long as they are relevant, core and material to the issuer. In addition, it is also recommended that the issuing subsidiary’s KPI(s) be consistent with the group’s overarching sustainability strategy.

## 4.2.7 Do the SLBP provide specific resources regarding KPIs for SLBs from Sovereign, Supranational and Agency (SSAs) issuers?

The [Illustrative KPIs Registry](#) while being primarily relevant for corporate issuers has been updated in June 2023 to include some metrics that can be used by sovereign and sub-sovereign issuers. Such metrics can also be adapted by supranational and agency issuers. The World Bank Group has published a report that specifically suggests a list of potential KPIs for sovereign SLBs<sup>15</sup>. The [suggested metrics](#) in the Harmonised Framework for Impact Reporting for Green Bonds and in the Harmonised Framework for Impact Reporting for Social Bonds may also be relevant.

## 4.3 Calibration of SPTs

### 4.3.1 How should differences in the sector, geography, governing laws and environmental policies be reflected when defining the ambition of SPTs?

The issuer should select KPIs and SPTs in relation to the specific sectors and local context with ambitious SPTs based on a combination of benchmarking approaches, such as historical and externally verified values, those selected by the issuer’s peers, and industry or sector standards, incorporating recognised “Best-Available-Technologies” or other proxies in the sector/industry.

The rationale for a sovereign issuer’s selected KPIs and SPTs may be based on the government’s policy and sustainability strategy, and use models to demonstrate achievement over and above what can be expected from existing macroeconomic/sustainable development policies (i.e. business-as-usual). Sovereigns should provide a clear rationale for choosing a particular peer group for benchmarking the SPT (i.e. similar income level, economic and demographic structure and/or climate or biodiversity characteristics) given that that each country’s national circumstances and priorities require nuanced considerations.

Targets should be set, at a minimum, to be in line with official country/regional/international targets (e.g. the EU Taxonomy of sustainable activities, the Chinese Green Bond Endorsed Project Catalogue<sup>16</sup>, Paris Agreement, 2030 Agenda on SDGs, Kunming-Montreal Global Biodiversity Framework (GBF)<sup>17</sup>, etc.), and when possible, should aim to go beyond such levels. For example, climate-related targets should be set in line with ‘science-based’ scenarios.

Creating forward-looking projections and scenarios based on government policies or other strategic initiatives is important for assessing the ambition of a sovereign issuer’s SPT.

It is understood that sustainability priorities are likely to vary depending on the economic, environmental, social and political context of different geographies in which issuers are domiciled or where they have the largest proportion of their activities situated. For example, environmental SPTs that may be regarded as modest in ambition in developed economies, could be highly ambitious in regions where the decarbonisation effort is less advanced. Similarly, differences in social factors including demographics, workforce participation and gender equality where issuer activities are undertaken may mean that what is regarded as an ambitious target in one region may not be accepted as ambitious in another.

<sup>15</sup> November 2021: <https://documents1.worldbank.org/curated/en/935681641463424672/pdf/Striking-the-Right-Note-Key-Performance-Indicators-for-Sovereign-Sustainability-Linked-Bonds.pdf>.

<sup>16</sup> The Green Bond Endorsed Projects Catalogue (2021 Edition) was jointly announced by the People’s Bank of China (PBOC), the National Development and Reform Commission (NDRC) and the China Securities Regulatory Commission (CSRC) on 21 April 2021 <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4342400/2021091617180089879.pdf>.

<sup>17</sup> <https://www.cbd.int/gbf/>.



The SLBP invite issuers to clearly communicate to investors the references to the benchmarks selected, and how the specificities of a given sector and/or local context have been identified and addressed.

#### 4.3.2 Is it possible to use ranges, dynamic targets, and/or benchmarks (as opposed to all being “set” before the issuance of the bond) including to allow for a reasonable margin of error?

The SLBP state that SPTs should “where possible be compared to a benchmark or an external reference” and “be determined on a predefined timeline, set before (or concurrently with) the issuance of the bond”. While such SPTs will be the most transparent and easiest to calculate, some issuers may select a range, or dynamic targets that could change over the life of the bond. Examples may include, but are not limited to, a “most favoured nation” clause, or a target to remain in the top [quartile] of an industry or peer group with respect to a particular KPI. Issuers should keep in mind that in such situations, the calculation and evaluation of a KPI against an SPT must remain transparent, specific, and replicable over time. Language which leaves room for interpretation – for example as to whether or not to apply a “most favoured nation” clause, or to modify a peer group (for example due to M&A activity of peers) is discouraged. The scale of any range should be clearly defined, with any margin of error being commensurate.

#### 4.3.3 What governance process should be established by the issuer to monitor the achievement of SPTs?

The issuer should not only select the relevant KPIs and related SPTs as per the Core Components 1 and 2 of the SLBP, but also ensure proper monitoring, disclosure and verification as per Core Component 4 of the SLBP.

Issuers should also consider potential requirements to file such information with securities’ regulators, when required, as the price change in a security due to a change in bond characteristics could be considered financially material.

Issuers should publish their performance level against each SPT for each KPI on a regular basis, ideally once a year, and seek independent and external verification (for example limited or reasonable assurance) by a qualified external reviewer with relevant expertise, such as an auditor, a sustainability consultant, or a multilateral organisation/agency. In any case, such publication and verification should be made for any date/period relevant for assessing the SPT performance leading to a potential adjustment of the SLB financial and/or structural characteristics. Even if a verified update of the performance levels against each SPT for each KPI is not possible for a sovereign issuer every year, the issuer is expected to provide investors with information on the levers actioned/means deployed towards each SPT on an annual basis.

#### 4.3.4 Can an SLB be issued with any target observation date?

It is recommended that issuers include (a) target(s) that is/are appropriate for the financial instrument selection. In general, it is recommended to include an intermediate observation date. For example, for a 10-year bond, an approximately 5 to 7-year observation date should be considered as the latest.

In line with the CTFH, relevant interim targets on the trajectory towards the long-term goal are recommended, including references to near-term alignment with science-based targets and transition pathways. Visibility on any long-term trajectory is also recommended to be provided to investors even if not necessarily disclosed as an SPT per se.

#### 4.3.5 Can SLBs be issued with a call date that precedes the target observation date for the SPT?

Issuers should ensure the structure of any SLB requires their performance against at least one SPT be evaluated, prior to the bond becoming callable at the issuer’s option at a pre-determined price. Where there is an early first call date, and evaluation against an SPT is impracticable, such as short first dates which could render ambitious public target setting challenging, investors will likely expect the call price to reflect an assumption that the SPT has not been met. It is therefore highly recommended that issuers set the target observation date/payment of penalty date before the call date.

### 4.3.6 Can SLB issuers use absolute or intensity-based KPI / SPT?

Issuers can use both absolute and intensity-based metrics, provided that they represent ambitious and appropriate measures of progress.

In the case of climate change mitigation-related KPIs & SPTs:

- Intensity targets are usually defined based on two approaches: the Sectoral Decarbonization Approach (SDA), and the Economic Intensity Contraction approach (GHG emissions per unit of value added (“GEVA”)) as defined by SBTi. It is recommended to use SDA where available; in any case, intensity targets are recommended to be set if they lead to absolute reductions in line with climate science.
- Targets should, to the extent feasible, be formulated both in intensity and absolute terms (as per the CTFH).

Issuers are encouraged to set targets without considering offsetting efforts in particular the use of carbon offsets. In any case, it is recommended to provide information on offsetting projects (if applicable), any related impact calculations and the rationale behind their selection, as recommended in the Net Zero guidance by SBTi.

### 4.3.7 Is it possible to rely on M&A (including, e.g. asset acquisitions, divestments / phase out) to achieve SPT(s)?

Issuers of SLBs can achieve targets via acquisitions or divestments (e.g. acquiring renewable energy assets, exiting fossil-fuel businesses or assets) under conditions or (gradual) phase in/phase out.

The SLB market aims to contribute to robust and ambitious real world sustainability objectives, therefore the credibility of any SPTs that are achieved through M&A will typically be assessed accordingly. For instance, where divestment rather than decommissioning is considered, investors will typically be concerned that all environmental and social challenges associated with the divested assets will be transparently addressed.

As highlighted in the Appendix II of the SLBP (SLB Disclosure Data Checklist), investors will expect:

- pre-issuance: language to take into consideration the potential impact of M&A activities on the calculation of KPIs, the restatement of SPTs and/or pro-forma adjustments of baselines or KPI scope; as well as
- post-issuance: disclosures on the impact of M&A activities on the evolution of the KPI on an annual basis.

Issuers should further underpin the credibility of all M&A activities, especially where it is a means to achieve any SPT, through the following disclosures:

- how acquisitions and/or divestments form part of the issuer’s overall ESG strategy;
- if available and can be publicly disclosed, the process by which the issuer has sought to ensure that any new owner of divested assets has a credible sustainability strategy and robust commitments to ensure that such assets will be part of a decarbonisation plan with no prolongation of the assets’ lifetime beyond that originally envisaged at the setting of the SPT and that potential adverse impacts are minimised;
- confirmation that the issuer retains no interest/control in any asset moved off balance-sheet, or where M&A activities give rise to sale-leaseback contracts or other corporate structures (such as SPVs, JVs etc.), additional transparency on the resulting effective environmental/social impacts for the issuer and for society; and
- the estimated contribution of M&A in their decarbonisation/transition plan, and more specifically any contribution to the achievement of the SPTs described in their SLB framework.

### 4.3.8 Are SBTi [or SBTN] approved targets needed to issue an SLB?

No, independently validated or otherwise ‘approved’ targets are not, strictly speaking, ‘needed’ to support an SLB issuance. However, it is recognised that some investors may value independent validation of targets as ‘science-based’ and view such validation (or intent to secure validation) where available/feasible (be it through SBTi or comparable science-based schemes or simply scientific decarbonisation scenarios such as ACT<sup>18</sup> and IEA<sup>19</sup>) as best practice and as serving to enhance the credibility of any stretching SPTs presented via a Sustainability-Linked

<sup>18</sup> <https://actinitiative.org/>

<sup>19</sup> <https://www.iea.org/>

Bond instrument. Should credible decarbonisation pathways exist for a given region and/or sector, it is strongly recommended that an issuer establish ambitious targets which are aligned to these.

The Science-Based Targets Network’s “Science Based Targets for Nature” (SBTN) initiative is at a relatively early stage of development, and while the benefit of externally validated targets also pertains to biodiversity, issuers may seek to monitor the development of biodiversity metrics as well as science-based benchmarks and validation schemes before using these schemes.

To note, science-based pathways might not be feasible when it comes to social KPIs. If the issuer of an SLB wants to use social KPIs, other sources/repositories might be of better use.

### 4.3.9 Should SLB issuers publish annual SPTs?

Annual SPTs are not a requirement. The ability to define meaningful annual targets largely depends on the nature of the KPI which has been selected and the maturity of the SLB. A trajectory or performance improvement pathway may be mapped out based on a number of interim targets over time, and it may be possible to define annual targets in this context. However, it is clear that for some business models and some KPIs, significant performance improvements will only be possible over an extended (multi-year) period of time, based on substantive adjustments to the business model and associated infrastructure and assets, and inclusion of annual targets may not be appropriate, particularly in the short term. Nevertheless, annual reporting on the progress against pre-defined SPTs and interim targets is expected to allow investors to track on a yearly basis the actual trajectory of the issuer.

### 4.3.10 How might an SLB issuer use the SDGs to calibrate their target?

As the SDGs generally provide a broader and more qualitative frame of reference, they may be challenging to use to guide SPT(s) calibration. Demonstrating an individual issuer’s contribution to a given SDG target may lack credibility, especially in the absence of widely accepted science-based benchmarks or scenarios for all SDGs.

Nevertheless, SDG related metrics can theoretically be used as KPIs where they address core, material and relevant ESG matters to an issuer, or in conjunction with other benchmarking approaches. Sovereign issuers in particular may, for instance, be able to demonstrate their measurable contribution to local SDG gaps through geo-spatial analysis. There are initiatives and resources in the market that may be of help to issuers when mapping KPIs to the SDGs, including, for example:

- [UNDP’s impact practice Standards for SDG bond](#) refers to standardised metrics (e.g. GRI, SASB, IRIS+) that are linked to specific SDG targets or outcomes and set across the Five Dimensions of Impact developed by the Impact Management Project.
- GRI, UN GC and WBCSD’s ‘[SDG Compass](#)’ includes inventories of business tools and indicators mapped to the SDGs.
- [PIMCO’s Guidance for Sustainable Bond Issuance](#) lists examples of initiatives that suggest targets at the corporate issuer level that may be mapped to the SDGs, e.g. CEO Water Mandate, RE100, EV100, Science-based target initiative or the New Plastic Economy Global Commitment.
- Sustainable Development Solutions Network ([UN SDSN](#)) which, based on public statistics, assesses national and local SDG gaps.

### 4.3.11 How can issuers deal with the selection of only some but not all of the KPIs and SPTs set out in their SLB framework?

SLB issuers are encouraged to state clearly in their SLB frameworks and other marketing materials that SLBs may be issued referencing one or some (but not all) of the KPIs and SPTs set out in the SLB framework. In that case, it must be explicit that investors will need to check the terms and conditions to determine which KPIs and SPTs are selected in the context of each individual SLB.

When selecting only some but not all of the KPIs and SPTs set out in their SLB framework, issuers are encouraged to respect the SLBP fundamental principles when it comes to selection of KPI(s) for a given transaction, i.e. relevant, core and material. These principles apply to each transaction-specific combination of KPI(s). SPO providers are encouraged to specify in their report the combination of KPIs demonstrated to be ‘relevant, core and material’ and/or indicate for each KPI/SPT, if it could be used on a standalone basis. Additional guidance is provided in the [Illustrative KPIs Registry](#), with regards to ‘core’ and ‘secondary’ KPIs at sector level.

## 4.4 Bond characteristics

### A Adjustments and changes to financial characteristics

#### 4.4.1 How can issuers evaluate the meaningfulness of any adjustment to the bond financial characteristics?

A key objective underlying SLBs is the reinforcement of the accountability of issuers with regards to their sustainability targets, through the introduction of a tangible incentive for achieving targets or, conversely, a penalty for missed targets in addition to any associated reputational/credibility concerns. Further, the SLBP recommend that trigger event(s) lead to a meaningful and commensurate variation in the financial and/or structural bond characteristics relative to the issuer's original bond (i.e. by comparison with the initial characteristics of the bond irrespective of its SLB structure).

Investors may prefer that the incentive mechanism embedded in an SLB reflects the specificities of (i) the issuer (e.g. size, industry), (ii) the transaction structure (e.g. tenor, call features, SPT evaluation date(s), and credit rating – especially classification as an investment grade or high yield offering), and (iii) the relative and absolute ambition of the target(s). Investors may consider the meaningfulness of the adjustment offered in the context of the issuer's overall cost of borrowing and to evaluate SLB structures with a particular focus on comparable issuers/issuances in the same region and/or currency.

This is the responsibility of the issuer (with the assistance of arrangers or other stakeholders such as SPO providers or external reviewers) to present their rationale for considering the economic value associated with the incentive mechanism to be meaningful and commensurate in the context of their funding program, in order to allow investors to opine on it. Issuers may further wish to demonstrate a relationship between SLB issuance amounts, the funding needs associated with the achievement of the selected sustainability performance targets, and the change in financial characteristics of their SLB issuance and/or programme.

Factors issuers may consider in designing incentive mechanisms and/or factors investors, external reviewers and other market participants may consider in evaluating incentive mechanisms could include:

- The absolute value of the penalty and proportion of the issuer's overall borrowing costs or spread which would be attributable to any economic adjustment to the bond (e.g. % increase in bond market borrowing costs which would be associated with any coupon step-up, step-up multiplied by the period for which it may apply).
- The ability to present any penalties in the context of other corporate benchmarking criteria (e.g. the presentation of SLB penalties in the context of overall company debt service obligations, corporate earnings (EBITDA), volume of CapEx /OpEx dedicated to achieve the SPT(s), cost of risks and/or compensation measures related to the non-achievements of the SPT(s), etc.).
- The ability to benchmark against the proposed adjustments made by preceding SLB issuers and transactions that are comparable, e.g. in terms of the issuer's credit rating, the nature of the issuer's nature business, maturity and size of the transaction, etc.
- Non-financial incentives, such as reputational, or market profile impacts on the issuer if SPTs are missed.

#### 4.4.2 What are relevant changes in the bond's characteristics as an alternative to coupon step-ups? And what would make them credible?

While coupon step-ups are most commonly used, other changes to financial characteristics, such as coupon step-downs, one-time payments and non-financial penalties, may be considered in light of their respective ability to align with the SLBP, i.e. be commensurate and meaningful relative to the issuer's original bond financial and/or structural characteristics.

- Step-down: A step-down mechanism enables an issuer to receive the incentive benefit only after the targets are achieved but raises specific considerations for investors. Issuers are well-advised to clearly communicate to the market their strong rationale for choosing a step-down structure prior to issuance, given the impact on investors' returns and the challenge to price the value of the step-down.
- Changes to the principal payment/redemption price: where the payment is at the end of the life of the bond, intermediate observation dates are still encouraged to be included unless the deal is short-dated (as per the Q 4.3.4 and 4 3 5).

- A make-whole call provision/callable structures: a recent [World Bank study](#) has highlighted the distinction between call options with the potential to minimise applicable penalties and all other type of options (such as clean-up calls and make-whole calls). Adjusting the pre-payment premium (or call option) could be credible provided the issuer does not circumvent the premium payment by redeeming early.
- One-time payment/Premium payment: the amount should be commensurate with a potential coupon step-up structure.

Changes to other structural characteristics or non-financial penalties are not precluded by the SLBP but some limitations should be noted, including increased complexity overall:

- Payment of a penalty in the form of carbon credits (on top of carbon credits that would be used to offset non-abatable residual GHG emissions): issuers are encouraged to set targets without considering offsetting efforts as per Q 4.3.6. If a penalty in case of non-achievement of the SPT is paid in the form of carbon credits (instead of cash) by the issuer, then the amount of such penalty should be meaningful and equivalent to at least the amount that would be paid in cash with a potential coupon step-up structure and/or to the level of missing GHG emissions reduction.
- Investments in pre-defined eligible projects beyond a business-as-usual budget in relation with the missed targets; this can prove challenging to demonstrate and monitor.
- Donations to pre-determined beneficiaries beyond a business-as-usual budget. Consensus agreement on an appropriate donation as well as its relevance and materiality to an issuer's overall business is likely to prove challenging, however, without a demonstrable link to the KPI/SPT.

## **B Change of KPIs or SPTs**

### **4.4.3 Can an issuer amend how it calculates a KPI or changes an SPT prior to the maturity of an SLB?**

KPI(s) and SPT(s) will be fixed in the legal terms and conditions of an SLB at the point of issuance. Therefore, to the extent there is to be any discretion as to how a KPI is calculated or potential for an issuer to change an SPT prior to maturity, it must be explicitly contemplated in the legal documentation (provisions have been observed in the market requiring the issuer: (i) to act in good faith; (ii) to make appropriate disclosures to bondholders and (iii) have an external party verify that the new KPIs/SPTs reflect at least the same level of materiality and ambition).

Issuers are encouraged to clearly communicate with reasonable detail the rationale for recalculation and/or restatement optionality, or set out a restatement policy as part of their framework and/or legal documentation via clauses that are explicit, detailed and incorporated in a systematic way.

The definition of a one size fits all quantitative recalculation threshold for all types of KPI/SPTs might prove to be challenging, though when relevant and feasible, issuers are encouraged to define their own quantitative threshold for mandatory recalculation in the event of material impact on their baseline/KPI or SPT. For example, the GHG Protocol recommends that companies set out a recalculation policy so that a significant threshold with qualitative and/or quantitative criteria is described in sufficient detail at the outset of the target being set. Regarding the baseline recalculation, the GHG Protocol recommends that companies 'shall develop a base year emissions' recalculation policy, and clearly articulate the basis and context for any recalculations. If applicable, the policy shall state any "significance threshold" applied for deciding on historic emissions' recalculation', detailing cases that provide a timeline recalculation of base year emissions, e.g. mergers, acquisitions and divestments. Based on recently observed market practices, issuers may recalculate in good faith the levels of the baselines, SPTs and/or KPIs to reflect any material impact (e.g. impact causing a change of at least 5%) on the initial levels of the SPTs, baselines and/or KPIs.

It is recommended that the issuer should seek an external review such as an updated SPO, confirming inter alia that the changes would result in the SPTs being no less ambitious than those originally set, that the SLB continues to align with the SLBP, that there continues to be consistency with the issuer's sustainability strategy, that there is no (material) impact on the original SPO, and/or that changes to calculation policies are aligned with the SBTi methodology (or another relevant recognised body).



#### 4.4.4 What KPI and/or SPT recalculation events should be included in the SLB framework and/or legal documentation?

KPI and/or SPT recalculation events, or changes in the baseline against which a KPI is measured, may include (amongst others):

- i. changes of applicable methodology or data sources for calculation (including correction of errors and/or new or more accurate data sets);
- ii. evolution of the issuer's perimeter (e.g. in terms of activities, business, employees – typically including both acquisitions and divestments), evolution of the calculation perimeter and organic business development;
- iii. force majeure events;
- iv. changes in market practice or industry standard, any applicable laws, regulations, rules, guidelines and policies relating to the business of the issuer.

Clauses must disclose the recalculation event with reasonable detail and with appropriate cross-references or mentions throughout the framework and/or legal documentation depending on regulators' specific expectations.

#### 4.4.5 How should bond characteristics be defined where more than one SPT(s) has been defined, but only one of the SPTs is achieved?

Issuers should act in good faith to respect the SLBP in the structuring of the bond characteristics. No specific approach is recommended, but a case-by-case structuring exercise should be done depending on the selected KPIs.

For example, the weighted approach between SPTs (i.e. partial impact on the bond characteristics in case one of the SPTs is missed) can be relevant, for example when:

- Discrete sustainability topics are covered (such as 1 KPI relating to climate and 1 KPI relating to gender).
- A combination of both management objectives and impact KPIs is applied.

Conversely, the "all-or-nothing" approach (i.e. full impact on the bond characteristics in case one of the SPTs is missed) could be more compelling and relevant in cases, for example, where a 'basket' of KPIs is used to encompass the necessary scope of a given theme (to ensure abidance by the core, relevant and material principles), e.g. all GHG emissions Scopes. In other words, investors are asked to look at the basket as a "whole", possibly because no single KPI is core.

In any case, the mechanism should be clearly pre-defined at the time of the issuance, and the decision between the two approaches (partial impact or all-or-nothing) should be chosen by the issuer and duly explained to the market.

#### 4.4.6 Can an issuer pick and choose among the set of KPIs and SPTs outlined in its framework for each issuance, and each tranche within an issuance?

In the event of a multi-tranche/multi-bond issuance in an SLB format, the issuer should ensure each individual bond/tranche presents a comparable level of quality, integrity and ambition (taking into consideration the consistency between the maturity of the bond/tranche and the horizon of the considered KPI/SPT).

In cases of multiple KPIs and ad hoc SPTs being included, see Q 4.3.11.

#### 4.4.7 What are the conditions under which it would be considered necessary for an issuer to carry out a bondholder consent solicitation process?

The terms and conditions of most SLBs usually envisage types of events potentially distorting KPIs/SPTs (see Q.4.4.3), including remedying actions. However, where a change to the KPI(s) and/or SPT(s) is not expressly contemplated in the terms and conditions of the bond subject to applicable laws, the issuer need to assess the need of obtaining bondholders' consent for a change to the KPI(s) or SPT(s).



In most jurisdictions, an amendment to the terms and conditions, is likely to require bondholders' consent, even if the reason for the need to adjust KPI(s) and/or SPT(s) relates for example to factors outside of the issuer's control. In any case, issuers are encouraged to consider an external reviewer's independent confirmation that the proposed adjustments are consistent with the initial level of ambition of SPT(s) or higher.

Generally, issuers are encouraged to adopt a recalculation policy and reflect this appropriately in their bond terms and conditions. Such a recalculation policy could provide future flexibility in limited pre-defined circumstances, including related to events which are outside of the issuer's control. A carefully considered recalculation policy, which is reflected in the bond's terms and conditions, may reduce the instances in which an issuer needs to seek bondholders' consent. Any potential recalculation events should be clearly defined.

#### 4.4.8 If an issuer has already issued an SLB with KPIs and SPTs, should new SLBs in subsequent years have updated SPTs to reflect the progress made on the original SLBs?

As per the SLBP, any new SLB issuance should reflect the most up-to-date sustainability strategy of the issuer described in its SLB framework (which could be the original framework if it is still valid or an updated version of it). Reference to the progress made on the original SPTs is likely to be a relevant update to the SLB framework ahead of a new issuance.

While it is possible to have multiple SLBs outstanding that refer to different SPTs, it is potentially more difficult for an issuer to manage operationally, and it may be preferred to align with the general sustainability strategy of the issuer if such alignment is possible and provided the parameters of any such outstanding SLBs are identical (see Q 4.4.9).

#### 4.4.9 Should issuers update outstanding SLBs with more ambitious SPTs of subsequent transactions or of a new SLB framework?

Issuers may want to consider whether it is possible to include a mechanism in their terms and conditions to provide for their outstanding SLBs to be updated if they were to issue subsequent SLB(s) (or when updating their SLB framework) with the same KPI(s) (as well as perimeter, methodologies, baseline, and observation date(s)) but with more ambitious SPT(s). To be effective, any such mechanism would need to be clearly drafted and its scope well defined. Issuers will need to take legal advice in any case to assess whether such updates require the consent solicitation of investors. It is also recommended that changes to SPTs that will impact an outstanding issuance be reviewed by a qualified external reviewer (in addition to other SLBP requirements and recommendations relating to external reviews).

When issuers do not decide to update their outstanding SLB(s) when issuing new SLB(s) (or when updating their SLB framework) with the same KPI(s) (as well as perimeter, baseline, methodologies, and observation date(s)) but with more ambitious SPT(s), they are recommended to consider how this may potentially affect the secondary market for their outstanding SLBs.

#### 4.4.10 Do any specific requirements apply in relation to the early refinancing of an existing SLB?

Issuers should communicate with full transparency when refinancing or buying back an SLB prior to the first observation date. Careful consideration should be given to address any concerns regarding a perceived intention to avoid the consequences of a potential failure to meet SPT(s). When an issuer is refinancing an SLB with a new one, it must be aligned with its current SLB framework and the latest edition of the SLBP.

## 4.5 Reporting

### 4.5.1 Should the SLB's reporting process be aligned in timing to the issuer's regular financial reporting?

There is no such requirement as part of the SLBP. The timing of the annual reporting relative to an SLBP issuance or programme is not prescribed, but the issuer would need to disclose it ahead of issuance. However, since KPIs are likely to be part of the issuer's annual reporting exercise, the coincidence of timelines is therefore more likely and expected to be welcomed by investors (that can process all the information at once). In which case, this might result in a rather short or long first reporting cycle depending on the timing of the first issuance compared to the issuer's annual reporting cycle.

#### 4.5.2 How should the issuer report in the case of an SLB programme with several issuances?

Issuers are encouraged to report in a user-friendly format (e.g. table) key information on all their SLBs outstanding and issued to date to allow an overview of their SLB program (including but not limited to the [Sustainability-Linked Bond information template](#)), e.g. SLB framework KPI(s) and SPT(s), bonds' SPT(s), baseline values, issue dates, baselines and target years, maturity dates, trigger point(s), penalty (including relevant details, e.g. type of penalty, penalty of each KPI and in combination if there is more than one), callability, external verification of the framework and SLB reporting (including relevant details, e.g. level of assurance), external verification of the target and date when obtained (e.g. SBTi), and use of proceeds (if specific, e.g. M&A, or combined SLB-GSS bond).

#### 4.5.3 What type of information should issuers disclose to demonstrate the credibility of their strategy to achieve the SPT(s)?

Issuers are expected to provide as much information as they can regarding the strategic planning and levers expected to be activated to reach the targets, including supporting investments and initiatives, interim milestones, and the estimated contribution of each lever. The associated ownership and governance in place and potential headwinds/limitations to reach their target are also relevant. Issuers are encouraged also to disclose the evidence and data used to build their strategic plan, including past performance (at least data over the last 3-years), baseline, calculation methodologies and external review results if any. In particular, issuers are encouraged to demonstrate how their strategy is consistent with their long-time horizon business model and is going beyond a business-as-usual approach from their own perspective, from a sector view and against science-based, international and/or industry standards or agreement. If available, issuers may also report the materiality of the target in terms of expected impact on the operations of the company.

During the lifetime of the bond, periodic disclosure (at least annually) is expected enabling investors to measure progress against SPTs. In particular, issuers should include explicit qualitative comments on progress and potential remediation actions in their SLB reporting.

#### 4.5.4 What type of trigger event should happen in the case of lack of reporting?

In the case of lack of reporting at the observation date and/or breach of reporting compared with information that was committed to within the documentation at pre-issuance, the SPT should be deemed not achieved and respective, predefined trigger events in the case of non-achievement should occur, as documented in the bond characteristics section (i.e. step-up provision or other change in the characteristics of the bond).

In the case that the issuer fails to report in accordance with its pre-issuance commitments within the offering documentation and/or SLB framework, the issuer is encouraged to explain the reason.

If an issuer fails to provide annual/interim reporting in the lead up to an SPT observation date, beyond information that was committed to within the documentation at pre-issuance, no specific trigger event is recommended, investors may engage in dialogue with issuers at their convenience.

#### 4.5.5 Can corporate issuers use their audited annual report to meet their SLBP reporting obligations, or do they need to produce a specific document?

Issuers can use their audited annual financial report, as long as it is easy for investors to find the relevant information as set out in the SLBP and as the issuer has committed in the bond documentation and/or SLB framework at pre-issuance (which could be, for example, through a dedicated SLB section). It is recommended that the bond documentation and/or framework disclose where the annual report is to be found and the expected timing of publication. A specific stand-alone document is not required, even if considered as best practice for investors to get direct and dedicated access to the SLB reporting

#### 4.5.6 Are there any specific reporting requirements for sovereign SLBs?

While all issuers should report on an annual basis, sovereign issuers may have some specificities requiring a tailored approach suitable to data availability and the specific context of each country. Sovereign SLB frameworks should include reporting periods according to data availability timelines and market requirements. The appropriate government authorities responsible for the official publication of reports should be identified in advance of any issuance.

Availability of timely data should be taken into consideration when selecting KPIs. Sovereign data reporting might lag corporate reporting due to the complexity of measuring and collecting (e.g. via national household surveys) sovereign data. Therefore, longer reporting deadlines compared to corporate issuers might be appropriate. These time lags might present a challenge for investors that need more up-to-date and more frequent (at least annual) information. In certain cases (for example, sectoral GHG emissions data), this challenge might be alleviated by using proxy data or means/policy deployment, oriented information. This could be used in combination with source data (for example, production data) that is reported more frequently, ideally on an annual basis. Issuers and investors might be able to use the approximate information in the interim and revise the information as the official information is reported.

If quantitative indicators are not available on an annual basis, then SLB sovereign issuers are encouraged to at least report qualitative information to investors and explain the reason of a lack of quantitative information and the main factors behind the evolution of each KPI.

## 4.6 Verification

### 4.6.1 External verification of the performance against the SPTs is required under the SLBP. How will this affect the legal documentation?

Under the SLBP, external verification of each KPI should occur at least once a year and for any date/period relevant for assessing the SPT performance (“trigger event”) that may lead to an adjustment of the bond characteristics.

Therefore, it is expected that reference will need to be made in the legal terms and conditions of the bonds setting out the roles of the parties in confirming whether each SPT has been met. By way of example, in bond documentation, where an issuer or third party makes a determination, it is common to include drafting that the determination, in the absence of error, fraud, negligence, etc. is binding. The precise drafting would need to be addressed as part of the documentation process prior to issuance of the SLB.

It is also likely that parties structuring the transaction will want to include a specific undertaking from the issuer in the legal terms and conditions to make external verification reports publicly available in line with the requirements of the SLBP.

## 5. Market and Technical Issues

### 5.1 Is there any statistical research now available to prove that GSS Bonds perform better than conventional bonds?

There is research now available on this topic that market participants and other stakeholders can procure directly from underwriters. GSS Bonds price “at market”. Some transactions have demonstrated pricing benefits while others have not.

### 5.2 How can investors recognise the eligibility of a bond as a GSS Bond or an SLB when the issuer does not refer to the Principles?

It is up to the issuer to confirm alignment with the Principles. Certain financial information providers and indices, such as Bloomberg and MSCI, provide complementary information that investors may review in conjunction with the information provided by issuers, and for which links can be found in the [sustainable finance](#) of ICMA’s website.

### 5.3 Are there any additional requirements for Green Sukuks?

In alignment with the Core Components of the GBP, every Green Bond should contribute to environmental objectives by exclusively applying the proceeds to finance or re-finance eligible Green Projects (including other related and supporting expenditures). The issuer should therefore make clear how their Green Sukuk is consistent with these requirements.

### 5.4 Are there any additional requirements for Green perpetual (callable) bonds?

In alignment with the GBP’s Core Components, every Green Bond should contribute to environmental objectives by exclusively applying the proceeds to finance or re-finance eligible Green Projects (including other related and supporting expenditures). The issuer should therefore make clear how their green perpetual (callable) bond is consistent with these requirements and especially with respect to the ongoing processes for project evaluation and selection, use of proceeds and reporting if the bonds were to remain outstanding beyond the first call date.

### 5.5 Can a project bond be a Green Bond?

Yes, a project bond can be a Green Bond if it qualifies as green and is aligned with the GBP’s Core Components.

### 5.6 Are Green Bonds, Social Bonds, Sustainability Bonds and Sustainability-Linked Bonds becoming a separate asset class?

Since the overall risk and return characteristics of GSS Bonds, and SLBs do not differ from those of non-labelled bonds by the same issuer, they do not meet all the criteria that are generally considered necessary to qualify as a separate asset class. SLBs, in seeking to incorporate Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs) into the bond’s financial and/or structural characteristics, come closer to differentiating their overall risk-return from non-labelled bonds by the same issuer, although they, too would be unlikely to be sufficiently distinct to be considered a separate asset class. Some investors, however, disagree, and a growing number adjust investment processes or allocations to seek exposure to GSS Bonds and/or SLBs in an attempt to actively contribute to the positive impacts associated with such issuance.

### 5.7 Guidance on fungibility considerations

GSS Bonds and SLBs are not considered fungible with bonds that are not aligned with all the Core Components of the Principles. More specifically, taps of GSS Bonds or SLBs must respect the original documentation of the relevant bonds, including the use of proceeds for GSS Bonds, and KPIs and SPTs for SLBs.

While it is possible (albeit not advisable) for the coupon and maturity dates of a GSS Bond or an SLB to be the same as for other bonds of the same issuer, they would be separate transactions (with separate ISIN codes and separate documents i.e. prospectuses).

## 5.8 Can an issuer launch a GSS Bond or SLB framework without having a Medium Term Note (“MTN”) programme?

In principle yes. The GSS Bond or SLB framework need not specify which legal platform is used for issuance and could apply equally to different types of issuance programme or to a standalone bond issue. The Principles do not specify the bond documentation to be used.

## 5.9 Does the issuer have to write a separate GSS Bond or SLB framework and/or information template document, or is a description in the legal documentation enough?

It is a Key Recommendation of the GBP/SBP that issuers publish a GSS Bond framework, which would be separate from the legal documentation, and be available in a readily accessible format to investors. The framework should cover their alignment with all Core Components of the GBP/SBP, as well as with additional recommendations. Further clarifications in the form of FAQs may also be deemed helpful.

For SLBs, as key sustainability features impact the bond’s characteristics, many core aspects will need to be embedded in the bond’s terms and conditions as well as other relevant sections of the prospectus. Further “non-contractual” information related to the SLB’s structure and the issuer’s sustainability strategy can be disclosed in a variety of ways, including an SLB framework, investor presentation, external review, sustainability report – subject to any securities regulations relevant to the target market of the offering.

## 5.10 Does a GSS Bond framework need to be published for each issuing entity of the same group or is it possible to use the same common framework for the entire group?

As the GBP, SBP and SBG seek to promote transparency, it is recommended that each issuing entity should explain their alignment with the Core Components of the Principles separately, or in the event that the GSS Bond framework will apply, identically to multiple entities, explicitly state the entities to which the GSS Bond framework will apply. For any issuing entity in GHG intensive sectors, it is also recommended that the framework incorporate each of the disclosures outlined in the CTFH.

## 5.11 How often should a GSS Bond framework be updated?

A framework does not need to be updated if there have been no changes to it.

It would be considered best practice to clearly state in which year the framework has entered into force and which version of the Principles the GSS Bond framework is aligned with. When updating the GSS Bond framework the issuer should state whether this will affect bonds and projects issued/financed previously or whether the new framework will cover only new issuances and projects to be financed.

## 6. Governance and Membership

### 6.1 How can I become a Member or an Observer of the Principles and enter into active dialogue with the community?

Organisations that are involved in the GSS Bond and/or SLB market or more generally in green and social finance are invited to apply to join the Principles either as Members or Observers. For more details, please see the [sustainable finance section](#) of ICMA's website.

An annual voluntary contribution is sought from all registered Members and Observers of the Principles who are not fee-paying members of the International Capital Market Association (ICMA) to assist in covering the costs incurred in the management, administration and development of the Principles, in addition to providing enhanced services. This financial contribution is not applicable to non-profit organisations, such as NGOs.

### 6.2 How is the Executive Committee elected?

The Executive Committee is formed by 24 organisations comprising an equal distribution between investors, issuers and underwriters with 8 representatives from each category. Every year, half of the seats of the Executive Committee are renewed by a vote of the Members before the AGM in line with the [governance framework](#).

### 6.3 Are the Principles a regulatory institution?

No, the Principles are voluntary guidelines as opposed to a mandatory framework. The Principles are reviewed regularly by the Executive Committee, on the basis of a consultation of Members and Observers. The executive committee is comprised of 24 market participants elected by Members of the Principles. Several national and international regulators have used the Principles as a significant point of reference.

### 6.4 What is the purpose of the Advisory Council and how are its members selected

The [Advisory Council's](#) (AC) purpose is to complement and provide input to the Executive Committee that remains the sole executive body of the Principles in line with its Governance. The AC also supports and informs the market outreach of the Principles.

Members apply voluntarily and are selected by the Executive Committee for an annually renewable 1-year term. The selection is based on a balanced representation of Principles' Members and Observers, especially key market stakeholders such as exchanges, service providers, rating agencies, external reviewers, and law firms, as well as civil society; geographic diversity; and market share and activity of green, social and sustainability bond issuers, investors or underwriters not already represented on the Executive Committee.

The AC is designed to enable wide stakeholder representation including through the rotation of participants.

### 6.5 How can members and observers join one of the working groups?

The Executive Committee reviews the list of the working groups and their related terms of reference each year at one of the first meetings following the Annual General Meeting. In order to keep the groups relevant and manageable in terms of size, the involvement of new participants is subject to adequate contributions of expertise and the operational capacity of the group. Should Members or Observers wish to get involved, they can contact the Principles' Secretariat at [sustainabilitybonds@icmagroup.org](mailto:sustainabilitybonds@icmagroup.org).



## 7. Other Market and Official Sector Initiatives

### 7.1 Do the Principles' Executive Committee and ICMA support the development of regional standards and taxonomies?

ICMA and the Principles' Executive Committee welcome opportunities to provide views and recommendations on the development of regional/national green bond standards and taxonomies as an effort to support transparency, disclosure and accountability/integrity. The Principles' Executive Committee encourages any regional/national guidance to align with the Core Components of the GBP and welcomes any additional recommendations that are relevant in their specific regions to help progress the global development of this market. Please also see Q 1.4.

### 7.2 How do the GBP align with international climate change related initiatives, such as the Paris Agreement, or the Sustainable Development Goals (SDGs)?

The GBP are voluntary guidelines drafted by prominent capital market participants representing investors, issuers and underwriters to promote best practices in terms of transparency and disclosure in the Green Bond market. The Paris Agreement is an international convention under the aegis of the United Nations. The SDGs are part of the United Nations agenda on sustainable development. Though well aligned with the environmental goals of these initiatives, the GBP remain separate and independent as a market-driven initiative.

While the eligible project categories in the GBP encompass climate change related interventions, they also include projects that address broader environmental concerns. Green, Social and Sustainability Bonds generally lend themselves to finance activities that are carried out in order to comply with NDCs and SDGs. Since the SDGs were launched in 2015, they have been increasingly accepted and referenced in the financial markets as ESG and impact investing are becoming mainstream.

In response to this growing momentum, the GBP/SBP provided guidance in 2018 for public and private sector issuers and investors to review their Green, Social and Sustainability Bond issuances and investments against the SDGs. This [mapping exercise](#) complements the GBP, SBP and the SBG in promoting the increase of bond financing that contributes to the mitigation of climate change and other environmental objectives, and to addressing social challenges globally. Thus far, 15 of the SDGs have been identified as being relevant to the GBP and/or the SBP.

It is important to note that alignment with the SDGs does not automatically ensure alignment with the GBP, SBP, or SBG.

### 7.3 Are “science-based targets”, referred to in the SLBP and in the CTFH, the same as Nationally Determined Contributions (NDCs), as proposed by the parties to the Paris Agreement?

Not necessarily. NDCs represent a country's individual commitments under the Paris Agreement. Science based targets, such as the approach set out by the Science Based Targets Initiative (SBTi)<sup>20</sup>, seek to provide guidance to companies and other economic actors on the extent and speed by which they need to reduce their greenhouse gas emissions to meet and/or exceed the objectives of the Paris Agreement. As it stands today, the sum of each countries' NDCs does not meet the 1.5°C or well below 2°C target of the Paris Agreement.

Element 3 of the CTFH recommends, as part of a credible transition strategy, that issuers reference appropriate benchmark, sector-specific GHG emission reduction trajectories in communicating their strategy in this area. We note that an aim to align the business plans with a 1.5°C trajectory will be perceived as most credible to an increasing proportion of market participants. However, reference to NDCs could be made as part of a transition strategy, particularly where issuers are at the beginning of their transition journey.

<sup>20</sup> <https://sciencebasedtargets.org/about-us>.

## 7.4 How might the EU Taxonomy support Green Bond and Sustainability-Linked Bond issuance?

The EU Taxonomy seeks to identify activities that substantially contribute to the EU's environmental objectives of climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control and/or protection and restoration of biodiversity and ecosystems. The EU Taxonomy includes technical screening criteria (TSCs) that are both qualitative and quantitative, and although there may be challenges both in translating green activities into eligible Green Projects, and in applying the TSCs to projects undertaken outside the EU, it may nevertheless provide a reference point for identifying and reporting on eligible Green Projects. Issuers of Sustainability-Linked Bonds may, for instance, reference and benchmark their sustainability performance against the EU Taxonomy's TSCs, which may also be applied as KPIs or the SPT calibration for such an issuance (e.g. % of revenue aligned with Taxonomy, % of investments that are aligned with the Taxonomy).

## 8. Indicative examples of types of Social and Sustainability Bonds

### A *Social Bonds related to a pandemic (e.g. COVID-19)*

#### 8.1 What types of issuers can issue Social Bonds related to a pandemic (e.g. COVID-19)?

All types of issuers in the debt capital markets can issue a Social Bond related to a pandemic (e.g. COVID-19), as long as all the Core Components of the SBP are addressed, and that the use of proceeds of the bond go exclusively towards eligible Social Projects that address or mitigate social issues wholly or partially emanating from the pandemic outbreak. There is no requirement to have previously issued a Social Bond.

#### 8.2 What types of proceeds are eligible for a pandemic-focused Social Bond?

Social Bonds finance projects that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes. A pandemic such as the global Coronavirus outbreak threatens the well-being of the world's population, especially the elderly and those with underlying health problems. In addition, millions of people around the world are suffering or will be suffering from the economic downturn and social isolation brought on by the COVID-19 pandemic. Relevant projects could be undertaken by various industries and sectors where the aim of the project(s) is to mitigate pandemic-related social issues and bring about positive social outcomes, especially for target populations, which may also include the general population affected by a crisis.

Illustrative examples for eligible Social Projects can include, for example, pandemic-related expenditures to increase capacity and efficiency in provisioning healthcare services and equipment, medical research, SME loans that support employment generation in affected small businesses, and projects specifically designed to prevent and/or alleviate unemployment stemming from a pandemic. The general population is likely to be affected by a pandemic, including by any resultant socioeconomic crisis, and Social Bonds, while seeking to achieve positive social outcomes for target populations, may also serve to address the needs of the general population.

#### 8.3 Would an existing Social or Sustainability Bond issuer require a change to its framework to enable issuances related to a pandemic?

An existing Social or Sustainability Bond issuer with an established Social or Sustainability Bond framework which includes use of proceeds that comprise sectors affected by a pandemic outbreak e.g. healthcare, employment generation, access to finance etc. would not need to amend its framework or use of proceeds language to explicitly mention the pandemic. The issuer should make transparent the positive social outcomes that the eligible Social Projects underlying a pandemic-related Social Bond are targeting. In the absence of a broader Social Bond framework, issuers may also opt to specify how they will comply with the Core Components of the SBP in the offering document for a pandemic-focused Social Bond.

#### 8.4 Is additional reporting required?

Where possible, issuers should include recommended indicators applicable to a pandemic, such as COVID-19 in their annual Social or Sustainability impact report. See [Harmonised Framework for Impact Reporting for Social Bonds](#) for the core principles for reporting on Social Bonds

## 8.5 If loans related to COVID-19 relief are included among use of proceeds and these loans mature or are repaid prior to the maturity of the issuance, do the proceeds need to be re-allocated?

Where an eligible asset has matured, been prepaid or no longer qualifies under the issuer's eligibility criteria, the issuer should re-allocate the funds to other eligible projects according to the use of proceeds as disclosed in their Social or Sustainability Bond framework or Information Template at the time of issuance. The issuer should also disclose the temporary use of the relevant proceeds pending their re-allocation. (See Q 2.1.4.)

## 8.6 Can Social Bonds be used to refinance existing COVID-19 related projects?

Social Bond proceeds may be used to refinance, in part or in full, existing eligible Social Projects. The SBP recommends that issuers clarify which Projects are to be refinanced and disclose, to the extent relevant, the expected look-back period for these refinanced Projects. (See also Q 2.1.1.).

## 8.7 Are there any tenor restrictions for Social or Sustainability Bonds issued in response to a pandemic such as COVID-19?

No, the SBP does not include any restrictions or recommendations related to tenor.

### ***B Social and Sustainability Bonds used to raise capital for social projects to support fragile and conflict states***

## 8.8 What types of organisations can issue Social or Sustainability Bonds to raise capital for social projects to support fragile and conflict states?

Sovereigns, supranational and official agencies (SSAs) may especially consider the issuance of a Social or Sustainability Bond to raise capital for Social Projects to support fragile and conflict states. Such bonds should be aligned with all the four Core Components of the SBP, as well as the guidance of the SBG as appropriate. They are neither grants nor concessional finance and are to be repaid by the borrower. There is no requirement to have previously issued a Social Bond or Sustainability Bond.

## 8.9 What types of proceeds are eligible in such cases?

Social Bonds finance projects that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes. Illustrative examples for eligible social projects to support fragile and conflict states can include direct emergency relief such as food, shelter and healthcare and specific projects designed to alleviate unemployment of affected populations. These can especially target refugees and displaced persons fleeing a conflict or crisis, although they may also seek to support a wider affected population. Borrowers also need to have processes to identify mitigants to known material risks of negative social and/or environmental impacts from their projects.

## 8.10 Would an existing Social or Sustainability Bond issuer require a change to its Social or Sustainability Bond framework?

An existing Social or Sustainability Bond issuer with an established framework which includes project categories relevant to the situation such as affordable basic infrastructure, access to essential services, food security and employment generation would not need to amend its framework or use of proceeds language. The Issuer should make transparent the expected impact of their proposed projects. In the absence of a broader social bond framework, Issuers may also opt to specify how they will comply with the four core components of the SBP in the offering document.

## 8.11 Can an issuer issue a Social Bond to raise capital for Social Projects to support fragile and conflict states with some proceeds earmarked for social projects for other purposes?

As with all GSS Bonds, issuers should make known what the intended use of proceeds are for their Social Bonds. Where applicable, issuers should indicate whether a percentage of proceeds is earmarked for social projects to support fragile and conflict states while the remaining proceeds could finance other eligible social projects

## 8.12 Is additional reporting required?

Issuers should include, where applicable, recommended indicators for the eligible project categories being targeted by their bond(s) in their annual social or sustainability impact report. See [Harmonised Framework for Impact Reporting for Social Bonds](#).



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