

Sustainability-Linked Bond Principles

Related questions

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I Fundamentals & Definitions

1-1 What is a SLB?

Sustainability-linked bonds (“SLBs”) are any type of bond instrument for which the financial and/or structural characteristics (i.e., 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 five core components on the Sustainability-Linked Bond Principles (“SLBP”).

1-2 What is the difference between green bonds, sustainability-linked bonds, transition bonds, ESG bonds, etc.?

Sustainability-linked bonds (“SLBs”) are intended to be used for the issuer’s general purposes but incorporate measurable forward-looking sustainability key performance indicators and sustainable performance targets into the financial and/or structural characteristics of bonds that are aligned with all five core components of the SLBP. Regardless, in select cases, issuers may choose to combine the Green Bond Principles/Social Bond Principles approach with the SLBP.

Transition bonds can be either green bonds or sustainability-linked bonds that are issued by those looking to align their financing strategy to their climate transition strategy and decarbonisation trajectory.

As with SLBs, environmental, social and governance (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 five core components of the SLBP, and can only be deemed green, social or sustainability bonds if they align with the GBP, SBP or SBG.

1-3 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 5 core components of the SLBP can be used to refinance sustainability-linked loans.

1-4 What is the interplay of “use-of-proceeds” and “sustainability-linked” bonds? Can they be combined if need be?

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 and the SLBP.

1-5 What is the targeted investor base for sustainability-linked bonds?

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/social/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.

1-6 How might the EU Taxonomy support sustainability-linked bond issuance?

The EU Taxonomy, which is under development, 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 will nevertheless provide a reference point for identifying and reporting on eligible green projects. Issuers of sustainability-linked bonds are encouraged to 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.

II Issuers

2-1 Who can issue a sustainability-linked bond?

Subject to any applicable law or regulation, all types of issuers in the debt capital markets can issue a sustainability-linked bond as long as it is aligned with the five core components of the SLBP.

2-2 Does the issuer have to write a separate framework and/or information template document, or is a description of the key details in the legal documentation enough?

Issuers are encouraged, where feasible, to publish a framework and/or information template, which would be separate from the legal documentation, to cover their alignment with all core GBP/SBP/SLBP components, as well as with additional recommendations. Further clarifications in the form of Q&A may also be deemed helpful.

For sustainability-linked bonds, 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 a framework, investor presentation, external review, sustainability report – subject of course to security regulation relevant to the target market of the offering.

III Selection of Key Performance Indicators (KPIs) and Calibration of Sustainability Performance Targets (SPTs)

3-1 What are the benchmarks, standards or frameworks that can be used to identify relevant and material KPIs? What parameters should be taken into account to consider whether SPTs comply with a "material improvement"?

A relevant KPI enables to assess and benchmark issuer's environmental and social impact, and/or the impact of environmental and social factors on its financials. SLBP issuers may reference or take inspiration from regulatory standards or taxonomies in the choice of relevant KPIs. Similarly, reference to goals and objectives set in international agreements, such as the Paris Agreement (countries' nationally determined contributions and the 1.5°C or 2°C temperature rise objective) or the 2030 Agenda on Sustainable Development (Sustainable Development Goals), can prove useful.

Existing and ongoing work on environmental and social impact metrics by the Green Bond Principles (GBP) may also help identify relevant KPIs and calculation methodologies. Reference to public or private multi-stakeholder initiatives can also prove useful and examples will be made available on the Resource Centre on [ICMA's website](#).

Material KPIs should be consistent with the issuer's strategy and reference a core, significant and relevant business activity, for which the outcomes are actually under the control of the issuer. The materiality of the KPIs to an issuer from a sustainability/ESG perspective should be based on a materiality assessment of the issuer's business. External guidance and/or tools such as the [Global Reporting Initiative's Guidelines](#) (GRI), [Sustainability Accounting Standards Board](#) (SASB), [TCFD, International Integrated Reporting Council's Framework](#) and the [Accountability's Materiality Framework](#) may be useful in order to conduct a materiality assessment. In addition to environmental and social impacts, a determination of materiality may take into account financial metrics such as % of turnover/EBITDA or other relevant metrics.

In order to allow investors to evaluate the issuer's historical performance against the KPIs selected, where possible, they should have already been included in previous annual reports, sustainability reports or other non-financial reporting disclosures, or alternatively, issuers should seek to provide externally verified KPI values covering at least the previous 3 years.

The SLBP requirement that any SPT should reflect a material improvement may be best understood through information on the issuer's track record to date (ideally covering at least the last 3 years) together with an outlook that includes a business-as-usual scenario. Further information on their relative positioning to peer institutions or and/against benchmarks such as the carbon emission reduction pathway that is consistent with the carbon budget for climate change. The significance of the change could be assessed using standard calculation and accounting methods (e.g., compound annual growth rate, changes in the share of the business or financial indicator concerned, such as capacity or energy mix for utilities).

3-2 What level of granularity is expected with regards to the calculation methodologies of the SPT?

Calculation methodologies must be clear and understandable to all investors. The different data points should be highlighted to explain how the KPI is built and calculated. Referring to external recognised reporting standards (such as the Global Reporting Initiative, GHG Protocol, EU ETS, etc.) may be sufficient when a clear calculation methodology is associated to such standard.

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 sections 1 and 2 of the SLBP but also ensure proper monitoring, disclosure and verification as per section 4 of the SLBP.

In particular, issuers of SLBs should publish, and keep readily available and easily accessible:

- up-to-date information on the performance of the selected KPI(s), including baselines where relevant;
- a verification assurance report relative to the SPT outlining the performance against the SPTs and the related impact, and timing of such impact, on the bond's financial and/or structural characteristics; and
- any information enabling investors to understand the time horizon of an SPT in relation to the bond tenor and monitor the level of ambition of the SPTs (e.g., any update in the issuers sustainability strategy or on the related KPI/ESG governance, and more generally any information relevant to the analysis of the KPIs and SPTs).

This reporting should be published regularly, at least annually, and in any case for any date/period relevant for assessing the SPT performance ("trigger event") leading to a potential adjustment of the SLB's financial and/or structural characteristics.

As a reminder, since a number of transparency measures are specified throughout the SLBP and for the sake of clarity, a checklist of recommended or necessary pre- and post-issuance disclosures is provided in Appendix II of the SLBP.

To ensure a smooth governance process, some issuers may find it convenient to make the verification of SPTs achievement relative to KPIs part of the preparation of the integrated annual report or sustainability report, in particular if the external verification is provided by the statutory auditor.

3-4 How should differences in the sector, geography, governing laws and environmental policies be reflected when defining the ambition of SPTs?

The issuer should select ambitious KPIs and SPTs in relation to the specific sectors and local context, with SPTs based on a combination of benchmarking approaches, such as historically externally verified values, issuers peers' and industry or sector's standards, considering recognised Best-Available-Technologies or other proxies in the sector/industry. Targets should be set at minimum to be in line with science-based scenarios, or absolute levels (e.g. carbon budgets), or to official country/regional/international targets (e.g. EU Taxonomy of sustainable activities, the China Catalogue, Paris Agreement, 2030 Agenda on SDGs, etc.), and, when possible, shall aim to go even beyond such levels.

Sustainability priorities are likely to vary depending on the economic, social and political development of geographies in which issuers are domiciled or have the largest portion of their activities. For example, environmental SPTs that may be regarded as modest in ambition in developed economies could be of high significance in regions where the carbon transition 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 ambitious in another. The Principles 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.

3-5 Is it possible to use dynamic targets and /or benchmarks (as opposed to all being “set” before the issuance of the bond)?

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 results of, some issuers may elect 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 remaining 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.

3-6 Can an Issuer amend how it calculates a KPI or change 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. KPIs and SPTs should always be precise, clear and unambiguous to avoid future disagreement as to whether a SPT has been met.

3-7 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 rating agency may serve as KPI for a SLB. Issuers should clarify if they are using either an ESG rating as a whole or only specific E, S or G parts of the rating. Given diverging and evolving rating methodologies or rating scales, where an ESG rating is not accompanied by other KPIs, issuers are expected to explain why an ESG rating is the best indicator to reflect their core business ESG challenges. 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 set SPT(s).

3-8 Can the KPIs be at project level? Or do they need to be at corporate level?

Yes, the KPIs can be at the project level provided that such a KPI fulfils the first and second principles 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 is probably less obvious for project-related KPIs than corporate-level KPIs.

3-9 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 set independently of the issuing entity, as long as they are material and relevant to the group/share of the group that the issuing entity represents.

3-10 How does an issuer map the KPIs to the UN SDGs?

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 standardized 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 Best Practice 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.

It is important to note that KPI-alignment with the SDGs does not automatically ensure alignment with the SLBP.

3-11 Can an issuer use multiple KPIs and SPTs within a single offering?

Multiple KPIs may be relevant, even for a single offering, especially where there are no dominant sustainability issues for a given issuer or sector, in order to appropriately capture the sustainability performance of the borrower.

Issuers should ensure that where multiple SPTs are used for the same KPI in relation to a single offering, this does not appear to reduce the issuer’s commitment to high performance on the KPIs chosen.

3-12 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 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 results of, some issuers may elect 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 remaining 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.

3-13 How should the issuer deal with M&A activities with regards to the existing KPIs/SPTs defined at the bond issue date? How should an issuer disclose material changes to its operations (i.e., M&A activity) and corresponding adjustment to SPTs?

It is critical to remember that any adjustments to KPIs and SPTs designed to address the impacts of M&A activity must be defined before (or concurrently with) the issuance of an SLB. The methodology for dealing with such M&A activity will be highly customized for each set of KPIs and SPTs, however, the calculation and evaluation of a KPI against an SPT must remain transparent, specific, and replicable over time.

M&A activity which impacts KPIs and the probability of achieving SPTs is likely to impact the price at which SLBs trade. As such, disclosure of material changes to operations must be done in accordance with securities disclosure laws applicable to the issuer and the SLB.

IV Bond characteristics

4-1 What kind of 'structural changes' could be involved in a SLB?

“Structural changes” refer to any other changes to the financial characteristics of the bond (coupon, maturity, repayment, interest payment date, amount, options, etc.) that would vary depending on whether the selected KPI(s) reach (or not) the predefined SPT(s).

While such “structural changes” have so far never been tested on the market and still do not draw consensus of what they can be or how they could be structured, the SLBP working group recognizes the extreme infancy of this instrument and does not want to hinder innovation by predefining the type of stake for the issuers SLBs introduce. The overarching intention underlying SLBs is the reinforcement of accountability from issuers with regards to their targets through introduction of a tangible stake beyond reputation (“skin in the game”) in the achievement of their strategic sustainability objectives. Therefore, one would expect the changes to the bond characteristics embedded in such product to both involve a meaningful and commensurate impact on the financial and/or structural changes involving trigger event(s) respecting this overarching principle.

4-2 Should there be any connection between the investment required to reach the SPT and the amount of funding raised using an SLB related thereto?

No, SLBs do not impose any commitment or disclosure on the investments required to reach the SPT. In some cases, reaching the SPT may require significant investment. In other cases, the issuer may reach the SPT without undertaking large investment. Many investors believe that an ambitious SPT is unlikely to be achieved with “business as usual” activity, which will likely require new investment, and/or organisational change (strategy/operating procedures/divestments etc.). Communicating all such activities required to achieve the SPT is recommended.

V Reporting and Verification

5-1 Should the SLB's reporting process be aligned on time and in an appropriate manner to the Company's Management Report?

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 totally possible.

5-2 Are there any minimum requirements in terms of an 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 or consider any exclusions.

Unless issuers choose to combine the GBP/SBP approach with the SLBP, the proceeds of SLBs are intended to be used for general corporate purposes. As a result, proceeds may be used to finance any kind of business activities that the issuer is pursuing (see Q 2-1 above). However, it is up to the issuer to make their case for a credible SLB and overall sustainability/transition strategy.

Many investors take into consideration the quality of the issuer's overall ESG profile. Investors with a focus on sustainability also often have exclusion criteria and minimum requirements with respect to ESG performance. 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 to achieve the SPTs.

5-3 External verification of the performance against the SPTs is required under the SLB principles. How will this affect the legal documentation?

It is a requirement of the SLBP that external verification of each KPI is made 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 the 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 Guidelines.

5-4 What type of external reviews are required post issuance?

Post issuance, issuers of sustainability-linked bonds are required to obtain independent and external verification as part of the reporting commitment for sustainability-linked bonds, as set out in section 4 of the SLBP. Such a verification should be provided at least once a year and 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.

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