Developments in Bond Markets Contributing to Sustainability under COVID-19 – Globally and in Japan

Panel 2 - In Practice: Labelling, Assurance, and Impact Assessment to Promote Bonds Contributing to Sustainability

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Social Bond Principles (SBP) – updated in June 2020

Released during GBP SBP AGM in June 2020:

1. Updates to the SBP:
   ▪ expanded social project categories
   ▪ additional target populations
   ▪ a definition of what constitutes a “social issue”
   ▪ guidance for social bonds addressing the COVID-19 crisis

   ▪ more robust definitions of output, outcome and impacts
   ▪ expansion of target population in the SBP
   ▪ working list of sample indicators is restructured.

3. Case Studies:
   ▪ a collection of Social and Sustainability Bond Case Studies from 18 issuers in various sectors was published
Sustainability-linked Bond Principles – released in June 2020

- Following success of SLLP and bonds by Enel, WG established by GBP SBP ExCom in January 2020 to examine the product and the potential market -> **SLBP released** in June 2020

- **KPIs and SPTs** – SLBs to be used for general purposes
  - main difference with GSS bonds
  - sustainable debt solution for issuers that do not have sufficient green or social capex as well as carbon-intensive sectors

- **SLBP’s 5 Core Components**:  
  - Selection of KPIs  
  - Calibration of SPTs  
  - Bond Characteristics  
  - Reporting  
  - Verification
“The EUR 17 billion social bond issuance is the very first social bond issued by the European Commission...Earlier this month, the European Commission established a Social Bond Framework aligned with the International Capital Market Association's Social Bond Principles.”

“The EU expects to use guidelines from the International Capital Markets Association...when sales begin next year, said a senior European Commission official, who asked not to be identified because the information isn’t public”.

Source: Bloomberg on 6 Nov 2020

The European Central Bank (ECB) has decided that bonds with coupon structures linked to certain sustainability performance targets will become eligible as collateral for Eurosystem credit operations and also for Eurosystem outright purchases for monetary policy purposes, provided they comply with all other eligibility criteria.

“...The ESM developed a Social Bond Framework built around the four core components of the ICMA Social Bond Principles...With this approach, the ESM strives to make full use of Social Bonds as an innovative debt instrument allowing the investor community to allocate their funds to the social needs of euro area member states hit by the pandemic crisis”.

## Green Bond Principles vs EU Green Bond Standard

<table>
<thead>
<tr>
<th>Nature</th>
<th>ICMA GBP (Green Bond Principles)</th>
<th>EU GBS (Green Bond Standard)</th>
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</thead>
<tbody>
<tr>
<td>Voluntary Process Guidelines</td>
<td>Elective Standard incorporating the ICMA GBP</td>
<td></td>
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<tr>
<td>Applicability</td>
<td>Global</td>
<td>EU and potentially international</td>
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<tr>
<td>Bond types</td>
<td>Use-of-proceeds (UOP) bonds</td>
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</table>
| Components      | 4 Core Components:  
- Use-of-proceeds (UOP)  
- Process for Project Evaluation and Selection  
- Management of proceeds  
- Reporting | Adds to GBP components with:  
(i) Project alignment with EU Taxonomy  
(ii) formalised Green Bond Framework and  
(iii) more granular reporting |
| EU Taxonomy     | No                               | Yes                          |
| External review / Verification | Voluntary | Mandatory (by registered verifier) for:  
Alignment of Green Projects with the EU Taxonomy; the Green Bond Framework with the EU GBS; Final Allocation Report  
Voluntary for:  
Impact Reporting |
EU Taxonomy

For an economic activity to be deemed sustainable, it has to comply with four conditions:

1. **Substantially contribute** to at least one of the six environmental objectives as defined in the proposed Regulation*
2. **Do no significant harm (DNSH)** to any of the other environmental objectives as defined in the proposed Regulation*
3. Comply with minimum safeguards
4. Comply with quantitative or qualitative Technical Screening Criteria (TSC)