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Green Bond Principles establishes a Working Group on sustainability/KPI-linked bonds

On 14 January 2020, the Executive Committee of the Green Bond Principles, the Social Bond Principles and the Sustainability Bond Guidelines (the Principles), supported by the International Capital Market Association (ICMA), decided to establish a working group on emerging sustainability/KPI-linked bond products.

The remit of the Working Group will be to (i) take stock of recent and ongoing developments in the market for sustainability/KPI-linked bond products (ii) establish their main characteristics including by using what has been developed in the Sustainability-linked Loan market; (iii) examine any concerns; and (iv) consider and potentially propose market guidance. The Working Group’s Terms of Reference are available on ICMA’s website.

Sustainability/KPI-linked bonds are an emerging product where the coupons of general corporate purpose bonds can vary depending on the achievement by the issuer of environmental, social or governance (ESG) related key performance indicators (KPIs), providing a new way for issuers to underwrite their commitment to sustainability. This is a different approach from the Green, Social and Sustainability Bond market where the issuer commits to earmark the use of proceeds to specific projects with environmental benefits in line with the Principles.

Sustainability/KPI-linked bonds come after related and earlier developments in the Sustainability-linked Loan market following the publication in 2019 with the support of ICMA of the Sustainability Linked Loan Principles by the Loan Market Association (LMA), the Asia Pacific Loan Market Association (APLMA) and the Loan Syndications and Trading Association (LSTSA).

Lars Eibeholm, Chair of the Green Bond Principles Executive Committee, Head of Treasury at Nordic Investment Bank, stated: “It’s important we continue to promote integrity in the rapidly growing green bond markets. This new sustainability-linked bond product potentially needs further guidance to make sure it will complement the current well-functioning use of proceeds bonds in the best way.”

Martin Schek, CEO of ICMA, stated: “We strongly support the efforts of the GBP Executive Committee to consider the implications of new sustainable products in the bond markets. Given the Committee’s role in developing the Green and Social Bond Principles, it has the expertise and credibility to provide any necessary guidance as this new market sector develops.”

View the 2018 Green Bond Principles
View the 2018 Social Bond Principles
View the Sustainability Bond Guidelines

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Notes for editors

The Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG)
The green, social and sustainability bond market aims to enable and develop the key role debt markets can play in funding projects that contribute to environmental sustainability or/and socio-economic challenges globally. The Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines (the “Principles”) promote integrity in this market through guidelines that recommend transparency, disclosure and reporting. The 2018 editions of the GBP and SBP remain in force and are framed by four core components (Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds and Reporting), as well as recommendations for the use of external reviews. They also continue to emphasise the importance of the use of the recommended disclosure templates for issuers and the content of external reviews.
www.icmagroup.org/green-social-and-sustainability-bonds

Green Bond and Social Bond Principles Community
The Green Bond and Social Bond Principles community consists of over 300 members and observers. Members are institutions that have issued, underwritten, placed, or invested in a Green, Social or Sustainability Bond. Members elect the Executive Committee, decide on changes to GBP governance, and provide input to updates to the Principles. Observer status is designed to welcome organisations that are active in the field of green finance, such as but not limited to NGOs, universities, auditors, and service providers, or are not yet active in the market. Observers are included in consultations regarding updates to the GBP and SBP and participate in working groups. The International Capital Market Association (ICMA) operates the Secretariat for the GBP and SBP and provides advice on governance and other issues.

International Capital Market Association (ICMA)
ICMA is the trade association for the international capital market with over 580 member firms from more than 60 countries, including banks, issuers, asset managers, infrastructure providers and law firms. It performs a crucial central role in the market by providing industry-driven standards and recommendations for issuance, trading and settlement in international fixed income and related instruments. ICMA liaises closely with regulatory and governmental authorities, both at the national and supranational level, to help to ensure that financial regulation promotes the efficiency and cost effectiveness of the capital market.
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