Guidance Handbook

April 2020

Disclaimer

This document does not constitute an offer to purchase or sell securities nor constitute specific advice of whatever form (tax, legal, environmental, accounting or regulatory) and does not create any rights in, or liability to, any person, public or private. Issuers adopt and implement the mapping voluntarily and independently, without reliance on or recourse if there is a conflict between any applicable laws, statues and regulations and the guidelines the relevant local law, statues and regulations shall prevail.

Contents

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) (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 GBP SBP Executive Committee have been made available online and have grown into an important body of knowledge and best practices. They were also 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 Secretariat is now publishing this up-to-date edition of theGuidance Handbook that contains additional responses, including those arising in the context of the socioeconomic crisis created by the COVID-19 pandemic.

The table of content now covers 6 sections: Fundamentals, Governance & Membership, Core Components of the GBP/SBP, Market and Technical Issues,Other Market and Official Sector Initiatives, and Social Bonds related to COVID-19.

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

1. Fundamentals

1.1 Is there a definition of Green, Social and Sustainability 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:

- Green Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance projects with clear environmental benefits and which are aligned with the four core components of the GBP. Eligible Green Project categories include renewable energy, energy efficiency, pollution prevention and control, eco-efficient and/or circular economy adapted products, production technologies and processes, Green buildings, terrestrial and aquatic biodiversity conservation, clean transportation etc[1].
- Social Bonds 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). Social Project categories include providing and/or promoting: affordable basic infrastructure, access to essential services, affordable housing, employment generation, food security, or socioeconomic advancement and empowerment.[2]
- Sustainability Bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance a combination of Green and Social Projects and which are aligned with the four core components of the GBP and SBP.

Green, Social and Sustainability Bonds 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 or Sustainability Bond?

Subject to any applicable law or regulation, all types of issuers in the debt capital markets can issue a Green, Social or Sustainability Bond as long as it is aligned with the four core components of the GBP/SBP.

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

A Green Social and Sustainability Bonds Database of issuers that have released their external review report and/or that have completed a market Information Template that enables Green, Social and Sustainability bond issuers to publicly confirm their alignment with the GBP/SBP is available on the GBP/SBP webpages on ICMA's Website. Apart from this, there are several lists, databases or indices that exchanges, market data providers, the Climate Bond Initiative (CBI) or the external opinion providers are updating, based on their own criteria.

1.4 Do the GBP provide clear standards for defining what projects or activities qualify as Green? Are the GBP project categories comprehensive? How do GBP eligible Green Project Categories differ from other publicly available taxonomies

The GBP only provide a broad suggested, and non-exhaustive list of eligible Green Project categories but also 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. Issuers are encouraged to provide the thought process by which the issuer evaluates the clear environmental benefits of all projects to be funded by Green Bond issuance, as well as of any additional Green project category they introduce.

In June 2019, the GBP Executive Committee also released a Green Project Mapping that aims 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. It also provides a basis for comparison to a few green taxonomies and classification systems currently used in the market.

1 Refer to Green Bond Principles 2018
2 Social Bond Principles 2018

The GBP's high level project categories can be complemented by taxonomies such as those provided for example by the Climate Bonds Initiative and Multilateral Development Banks. Links to a few of these taxonomies can be found on the GBP/SBP webpages on ICMA's website.

1.5 What are the advantages of issuing a Green Bond?

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

1.6 What is an external review, is it required, who are the review providers, and are they endorsed by the GBP?

The GBP and SBP recommend that issuers use an external review to confirm, among other things, the alignment of their issuance with the key features of the GBP or SBP. There are different types of external review as detailed within the GBP and SBP. Dependent on the type, External reviews can occur pre and post bond issuance. In 2018, the GBP and SBP released "Guidelines for External Reviews" which provide expectations for professional and ethical standards for External Reviewers and include guidance related to organisation, content and disclosure for their reports.

The GBP and SBP does not endorse any external review providers, solely providing 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.

1.7 Can Green, Social or Sustainability Bonds "default" by not following the GBP/SBP/SBG recommendations anymore?

Alignment with the GBP/SBP/SBG guidelines is voluntary. Issuers should, however, address in their reporting whether their Green, Social or Sustainability Bond(s) remain aligned with the GBP/SBP/SBG recommendations, and will be exposed to significant reputational risk if their Green, Social or Sustainability Bond(s) do not meet their environmental or social undertakings and cease to be aligned with the GBP/SBP.

1.8 Can a Green 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 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. 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.

1.9 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 above). 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.

1.10 What is the difference between Green Bonds, climate bonds, environmental bonds, social bonds, sustainability bonds and ESG bonds?

As defined by the GBP, Green Bonds encompass climate and environmental bonds as long as they are aligned with the four core components of the GBP. The Social Bond Principles (SBP) provide a definition for Social Bonds, while the Sustainability Bond Guidelines (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 four core components of the GBP and SBP.

SDG bonds are Sustainability Bonds that aim to promote wide sustainability criteria and/or the United Nations Sustainable Development Goals (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 Green, Social or Sustainability Bonds if they align with the GBP, SBP or SBG.

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 as Green, Social or Sustainability Bonds if they align with the GBP, SBP or SBG.

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

Social impact bonds, also referred to as pay-for-perfomance 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 four components of the Social Bond Principles.

1.12 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). The Issuer's processes should seek to ensure that the relevant project(s) do not cause significant harm to other environmental and social objectives, and should communicate its analysis, any mitigation measures enacted and the monitoring to be undertaken where the issuer assesses the potential risks to be meaningful.

2. Governance and Membership

2.1 How can I become a Member or Observer of the GBP and SBP, and enter into active dialogue with the community?

Organisations that are involved in the Green, Social or Sustainability Bond market or more generally in green and social finance are invited to apply to join the GBP/SBP either as Members or Observers. For more details, please visit our webpage.

An annual voluntary contribution of €10,000 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.

2.2 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.

2.3 Are the GBP/SBP a regulatory institution?

No, the GBP and SBP are voluntary guidelines as opposed to a mandatory framework. The GBP and SBP are typically updated annually on the basis of a consultation of Members and Observers by its Executive Committee, which is comprised of 24 market participants elected by the GBP/SBP Members. Several national and international regulators have used the GBP as a significant point of reference.

2.4 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 GBP/SBP in line with its Governance. The AC also supports and informs the market outreach of the GBP/SBP.

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 GBP/SBP 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.

2.5 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 GBP/SBP Secretariat at sustainabilitybonds@icmagroup.org.

3. Core Components of the GBP/SBP

3.1 Use of Proceeds

A Common features

3.1.1 How can issuers be transparent about the age of refinanced Projects?

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.

3.1.2 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. The GBP and SBP allows for refinancing of eligible projects, thus it would also be possible for the proceeds of a new Green, Social or Sustainability Bond following all the four components of the GBP, SBP or SBG to be used to buyback a Green, Social or Sustainability Bond. It would even be possible for the proceeds of a new Green, Social or Sustainability Bond to be used to buyback a conventional bond, as long as an amount equivalent to the net proceeds is earmarked to fund existing and/or future eligible projects that have not been earmarked against any Green, Social or Sustainability Bond issuance that will remain outstanding. In all such cases, the issuer should ensure that any new Green, Social or Sustainability Bond follows the four components of the GBP, SBP or SBG. Where all the assets underpinning the original Green, Social or Sustainability Bond remain outstanding, the four core components will remain unchanged. Where the underlying projects are no longer outstanding for the full amount of the proceeds of the original issuance, new eligible projects will need to be identified to cover any shortfall.

The GBP and SBP recommend that issuers clarify which eligible 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) and include this under the existing GBP reporting requirement. It is also recommended that the issuer's Green, Social or Sustainability Bond framework states clearly that refinancing of assets is permissible.

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

The proceeds from a Green, Social or Sustainability 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. The GBP/SBP recommend that issuers use an external review to help investors assess the bond's alignment with the four 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.

3.1.4 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 four 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 Sustainability Bond Guidelines 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.

3.1.5 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. Green, Social or Sustainability Bonds must have 100% of the proceeds dedicated towards Green and 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. 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 projects.

3.1.6 Can the proceeds of a Green, Social, Sustainability Bond issue be used to invest in Green, Social, Sustainability Bonds?

Green, Social or Sustainability Bonds should not typically qualify as use of proceeds for a Green, Social or Sustainability 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 Green/Social/Sustainability Bond issuer and by the issuer of the subsequent Green/Social/Sustainability Bond ("double-counting").

In the case of structured and securitised Green Bonds, or those issued to support the growth and development of Green Bonds in emerging capital markets, the nature of the instrument, including the relationship between the instrument and any underlying or derivative Green Bonds, as well as the impact, should be transparently communicated to the market to avoid potential "double counting" complications.

A bond issued in the context of a liability management transaction, in which an existing Green, Social or Sustainability Bond is bought back and refinanced, may qualify as a Green, Social or Sustainability Bond if it is aligned with the four core components of the GBP/SBP (see 3.1.2). This recognises that such refinancing can be a routine process by which issuers optimise their access to markets.

3.1.7 Can eligible assets be refinanced with the proceeds of a Green / Social / 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 Green, Social or Sustainability 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 Green, Social and Sustainability Bond market.

3.1.8 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 Green, Social or Sustainability 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 asset, 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 Green, Social or Sustainability Bond.

3.1.9 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 Green, Social or Sustainability 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 requirements of the GBP/SBP. The refinancing should be done within the useable lifetime of the green, social or sustainability asset - see also 3.1.8 above.

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

Yes. 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 Green, Social or Sustainability Bond Framework. In addition, the issuer should clarify that the new financing raised will not be used for any purposes that would damage the integrity of the Green, Social or Sustainability Bond.

3.1.11 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 projects where possible. The issuer should report on the balance of any unallocated proceeds, and the types of temporary investments made with such balance.

3.1.12 Can an issuer issue 'theme' bonds focusing only on one category out of a more general Green/Social/Sustainability Bond Framework?

Yes, a Green/Social/Sustainability 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 four 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 Green Bond Principles, the Social Bond Principles or the Sustainability Bond Guidelines.

B Green Bonds

3.1.13 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.

3.1.14 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 1.12) It is also recommended that issuers use an external review to advise on the environmental sustainability and expected impacts and risks of the projects to be financed. 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.

3.1.15 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 four 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. It is also recommended that issuers use an external review to advise on the environmental sustainability including, for instance, the project's degree of alignment with the objectives of the Paris Accord, 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 CBI have developed standards for energy efficiency in the fossil fuel sector that market participants are encouraged to reference.

3.1.16 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.

3.2 Management of proceeds

3.2.1 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 Green, Social or Sustainability Bond should be applied to Green 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 the 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 projects. Additionally, some investors have a strong preference that liquid temporary investments should be ESG / green products as much as possible.

3.2.2 Can an issuer raise Green, Social and Sustainability Bond proceeds in one currency and utilise them for 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 Green, Social or Sustainability 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 Projects without necessarily using FX swaps or intercompany loans.

3.2.3 How should you deal with surplus money arising when Green, Social, Sustainability Bond proceeds exceed green projects?

The Principles state that the proceeds of the bond will be exclusively applied to (re)finance eligible Projects. It nevertheless recognises 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 projects or buying back their previous Green, Social or Sustainability 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 Green, Social and Sustainability Bond market.

3.3 Reporting

A Common features

3.3.1 Is there a standard methodology for reporting on the impact of the bond proceeds?

The GBP and SBP seek to encourage harmonised impact reporting by providing core principles for reporting the impact of projects, as well as through suggested metrics and the provision of templates that cover most eligible Projects. These suggested metrics are available on the GBP/SBP webpages on ICMA's website. As of April 2020, the Green Project categories with suggested impact metrics include renewable energy, energy efficiency, sustainable water and wastewater management, waste management and resource efficiency projects, clean transportation, green buildings, and biodiversity.

3.3.2 How often and for how long is an Issuer expected to report on Green, Social or Sustainability Bonds?

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 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 Green bond framework and/or their Market Information Template[3].

3.3.3 What kind of reporting should the issuer consider pre-issuance of Green / Social / Sustainability 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 Green, Social or Sustainability Bond, this would require pre-issuance reporting on the processes established to ensure alignment of their bonds with the four core principles of the GBP or SBP. This is typically done through providing a publicly available Green Bond or Social Bond Framework and/or Information Template prior to issuance together with any external review and additional details through, for example, Q&As. Examples can be found in the Green, Social and Sustainability bonds database.

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.

3.3.4 How should an issuer report impact for projects where the issuer has provided only partial financing?

As per guidance in the Harmonised Framework, 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.

3 The Information Template enables Green, Social and Sustainability Bond issuers to publicly confirm their alignment with the GBP/SBP. The template can be downloaded from the GBP/SBP webpages on ICMA's Website.

B Green Bonds

3.3.5 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 Green Bond Principles Impact Reporting Working Group ("IRWG") has offered suggestions for best practice in the impact reporting metrics for most eligible Green Bond Project categories. The broad membership of the IRWG, which includes International Financial Institutions, environmental NGO's, investors and Green Bond issuers, have contributed to the suggested metrics. The IRWG will work steadily towards proposed metrics for impact reporting on projects in the remaining eligible Green Project categories. The proposed metrics are, however, only suggestions that issuers may adopt, adapt or ignore in favour of alternative metrics, as they see fit.

3.3.6 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.

3.3.7 Do the GBP provide guidance to help investors to select Projects aligned with a 2° scenario?

While many of the projects funded by the Green Bond market support mitigation efforts toward a low carbon transition, Green Bond eligible categories are not solely limited to climate focused projects. Green Bond investors can take guidance from issuers on the type of projects they are funding and the corresponding expected impact reporting, especially around avoided emissions, to determine their contribution to the 2-degree transition.

C Social Bonds

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

It is understood that for certain social projects/assets (e.g., construction loans for affordable housing, construction of healthcare facilities), actual impact cannot be calculated until those assets are operational and/or projects completed, which may/may not be at the outset of a bond issuance. In these cases, issuers should report on their estimated impact. With either approach, actual or estimated, issuers are encouraged to provide detailed insight with clear disclosure on the scope and limitations of data presented.

3.3.9 How does a positive social outcome differ from a social issue?

The SBP stipulates 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. Working Towards a Harmonised Framework for Impact Reporting for Social Bonds considers this in more detail.

3.3.10 Are Social Projects also required to identify a specific target population?

In instances where there may be broad social issues that impact the general populace, for example public health issues, polluted water supply etc., consequently the target population could be the entire populace rather than a particular segment of the population. In such cases especially, issuers should provide a thorough explanation of the social issue to be addressed by the project and the expected impact on the general populace. In such cases, issuers are nonetheless encouraged to identify any particular segments of the general populace that are expected to especially benefit from the project.

Issuers are encouraged to identify the target population(s) for which positive social outcomes are anticipated and to include target populations in reporting wherever possible. It is acknowledged that a project may 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.

4. Market and Technical Issues

4.1 Is there any statistical research now available to prove that Green, Social or Sustainability 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. Green, Social and Sustainability Bonds price “at market”. Some transactions have demonstrated pricing benefits while others have not.

4.2 How can investors recognise the eligibility of a bond as a Green, Social or Sustainability Bond when the issuer does not refer to the GBP/SBP/SBG?

It is up to the issuer to confirm alignment with the GBP/SBP/SBG. 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 Resource Centre.

4.3 Are there any additional requirements for Green sukuks?

In alignment with the four core GBP 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 sukuk is consistent with these requirements.

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

In alignment with the four core GBP 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 use of proceeds and reporting.

4.5 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 four core components.

4.6 Are Green Bonds, Social Bonds and Sustainability Bonds becoming a separate asset class?

Since the overall risk and return characteristics of Green Bonds, Social Bonds, and Sustainability Bonds 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. However, some investors disagree, and a growing number adjust investment processes or allocations to seek exposure to Green Bonds, Social Bonds and/or Sustainability Bonds in an attempt to actively contribute to the positive impact associated with Green Bonds Social Bonds and/or Sustainability Bonds.

4.7 Guidance on fungibility considerations

Green, Social and Sustainability Bonds are not considered fungible with bonds that are not aligned with the four core components of the GBP/SBP. More specifically, taps of Green, Social or Sustainability Bonds must respect the original documentation of the Green, Social or Sustainability Bonds, including the Use of Proceeds.

While it is possible (albeit not advisable) for the coupon and maturity dates of a Green, Social or Sustainability Bond 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).

4.8 Can an issuer launch a Green Bond Framework without having an MTN program?

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

4.9 Does the issuer have to write a separate Framework and/or Information Template document, or is a description of the projects 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 four core GBP components, as well as with additional recommendations. Further clarifications in the form of Q&A may also be deemed helpful.

4.10 Does a Framework need to be done 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 four core components of the Principles separately, or in the event that the Framework will apply identically to multiple entities, explicitly state the entities to which the Framework will apply.

4.11 How often should a Framework be updated?

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

5. Other Market and Official Sector Initiatives

5.1 Why are there regional green bond standards, such as the ASEAN GBS? Does GBP/SBP Executive Committee support the development of these regional standards?

When requested, the GBP/SBP Executive Committee provides input into the development of regional/national green bond standards that complement the GBP/SBP to support such efforts towards transparency, disclosure and accountability. All regional/national green bond standards developed to date (as of July 2018), are largely aligned to the four pillars of the GBP, which are recognised globally by market participants as market best practice.

5.2 What is the GBP/SBP Executive Committee's position on the differences between the GBP and regional standards?

There are a few instances where regional/national green bond standards do slightly differ from the four pillars of the GBP, but regional/national green bond standards have generally furthered the recommendations and requirements of the four Pillars of the GBP. The GBP/SBP Executive Committee encourages any regional/national guidance to align with the four pillars of the GBP and welcomes any additional recommendations that are relevant in their specific regions to help progress the global development of this market.

5.3 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 o 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 Nationally Determined Contributions (NDCs) and SDGs. Since the SDGs were launched in 2015, they have been increasingly accepted and applied 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.

6. Social Bonds related to COVID-19

6.1 What types of issuers can issue Social Bonds related to COVID-19?

All types of issuers in the debt capital markets can issue a Social Bond related to COVID-19, as long as all the four core components of the Social Bond Principles are addressed, and that the use of proceeds of the bond go exclusively towards Social Projects that address or mitigate social issues wholly or partially emanating from the coronavirus outbreak. There is no requirement to have previously issued a Social Bond.

6.2 What types of proceeds are eligible for a COVID-19 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. 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 pandemic. Relevant projects could be undertaken by various industries and sectors where the aim of the project(s) is to mitigate COVID-19- related social issues and bring about positive social outcomes, especially for target populations, which may also include the general population affected by the crisis.

Illustrative examples for eligible Social Projects can include, for example, COVID-19-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 the pandemic. The general population is likely to be affected by the 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.

6.3 Would an existing Social or Sustainability Bond issuer require a change to its Framework to enable issuances related to COVID-19?

An existing Social or Sustainability Bond issuer with an established framework which includes use of proceeds that comprise sectors affected by the coronavirus 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 COVID-19 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 four core components of the SBP in the offering document for a COVID-19-focused Social Bond.

6.4 Can an issuer issue a Social Bond for COVID-19 where not all the proceeds are directed towards COVID-19 Projects?

As with all Social Bonds, all the proceeds should be exclusively used to finance or refinance eligible Social Projects. Thus, issuers should make known what the intended use of proceeds are for their Social Bonds, and, where applicable, should indicate whether only a percentage of proceeds is earmarked for dedicated COVID-19 mitigation, while the remaining proceeds finance other eligible Social Projects.

6.5 Can all bonds that broadly target COVID-19 be labelled as Social Bonds?

This is a crisis situation that requires swift action, and thus the selection process and earmarking of bond proceeds required by the Social Bond Principles may not be feasible. While this is fully understandable, where issuers cannot apply with all four core requirements of the Principles, they should refrain from using the Social Bond label.

6.6 Is additional reporting required?

Where possible, issuers should include recommended indicators applicable to COVID-19 in their annual Social or Sustainability impact report. See Working Towards a Harmonized Framework for Impact Reporting for Social Bonds for the core principles for reporting on Social Bonds.

6.7 Many governments across the world are in the process of extending sizable guarantee schemes with the aim of incentivising banks to finance SMEs and loans to borrowers who are suffering stress as a result of the ongoing COVID-19 virus. Can an issuer use these government-guaranteed loans in their Social or Sustainability Bond?

So long as the use of proceeds are eligible, these loans could be eligible for the Social or Sustainability Bond. Indeed, there are already existing issuers with explicit or implicit sovereign guarantees who issue social bonds.

6.8 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 Market Information Templates at the time of issuance. The issuer should also disclose the temporary use of the relevant proceeds pending their re-allocation. (See 3.1.5.)

6.9 Is there a standard methodology to report on jobs supported or jobs maintained as a result of MSME financing?

The SBP encourages 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).

6.10 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 3.1.1.).

6.11 Are there any tenor restrictions for Social or Sustainability Bonds issued in response to COVID-19?

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

The
Green Bond
Principles

The
Social Bond
Principles

The
Sustainability Bond
Guidelines

Contact details

ICMA Paris Representative Office

62 rue la Boétie

75008 Paris

France

Tel: +33 1 70 17 64 70

greenbonds@icmagroup.org
socialbonds@icmagroup.org
sustainabilitybonds@icmagroup.org

www.icmagroup.org