Introduction

The Green Bond Principles (GBP), Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG) (collectively the “Principles”) recommend that in connection with the issuance of a Green, Social or Sustainability Bond or programme, issuers appoint external review provider(s) to confirm the alignment of their bond or bond programme with the four core components of the Principles.

These Guidelines for External Reviews aim to promote best practice. They complement the Principles and other existing relevant guidance such as the Assurance Framework for the Climate Bond Standard, Guidelines for the Conduct Assessment and Certification of Green Bonds (Interim) jointly issued by the People’s Bank of China and the China Securities Regulatory Commission, the draft EU Green Bond Standards produced by the High-Level Expert Group (HLEG) on Sustainable Finance, and the ASEAN Green Bond Standards. They provide voluntary guidance relating to professional and ethical standards for external reviewers, as well as to the organisation, content and disclosure for their reports. They have been developed as a common undertaking between the Executive Committee of the Principles in consultation with a group of leading external reviewers, with the support of the ICMA Secretariat.

These voluntary Guidelines are a market-based initiative and aim to provide information and transparency on the external review processes for issuers, underwriters, investors and other stakeholders. They strive to represent a consensus view from all parties involved and will be updated periodically with feedback from external reviewers and consultations with the Principles’ member and observer community.

The 2020 version of the Guidelines provides additional guidance especially for second party opinions. It is important to note that it has not been updated to date for guidance related to the new Sustainability-Linked Bond Principles.
Types of External Reviews

There are a variety of ways for issuers to obtain outside input to their Green, Social or Sustainability Bond process and there are several levels and types of review that can be provided to the market. Independent external reviews may vary in scope and may address a Green, Social and Sustainability Bond framework/programme; an individual Green, Social and Sustainability Bond issue; and/or the underlying assets and/or procedures. They are broadly grouped into the following types, with some providers offering more than one type of service, either separately or combined:

1. **Second Party Opinion:** An institution with environmental/social/sustainability expertise that is independent from the issuer may provide a Second Party Opinion. The institution should be independent from the issuer’s adviser for its Green, Social and Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second Party Opinion. Any concerns on the institution’s independence should be disclosed to investors.

   A Second Party Opinion normally entails an assessment of the alignment of the issuer’s Green, Social and Sustainability Bond issuance/framework/programme with the Principles. For these purposes “alignment” should refer to all four core components of the Principles. In particular, a Second Party Opinion can include an assessment of the issuer’s overarching objectives, strategy, policy, and/or processes relating to environmental and/or social sustainability and an evaluation of the environmental and/or social features of the type of Projects intended for the Use of Proceeds.

2. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental/social/sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer’s internal tracking method for use of proceeds, allocation of funds from Green, Social and Sustainability Bond proceeds, statement of environmental and or social impact or alignment of reporting with the Principles may also be termed verification.

3. **Certification:** An issuer can have its Green, Social and Sustainability Bond or associated Green, Social and Sustainability Bond framework or Use of Proceeds certified against a recognised external green/social/sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.

4. **Green, Social and Sustainability Bond Scoring/Rating:** An issuer can have its Green, Social and Sustainability Bond, associated Green, Social, and Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental / social/ sustainability risks.

The Principles accept that an external review may be partial, covering only certain aspects of an issuer’s Green, Social and Sustainability Bond or associated framework or may be full, assessing alignment with all four core components of the Principles. The Principles take into account that the timing of an external review may depend on the nature of the review, and that the publication of reviews can be constrained by business confidentiality requirements.
Ethical and Professional Standards for External Reviewers

In line with the definitions above, different types of firms can provide external reviews. Some of these firms’ activities are explicitly covered by professional standards and/or regulation, such as accounting firms and regulated credit rating agencies, while others are not. At a high level, all firms providing external reviews should be guided by the following five fundamental ethical and professional principles:

1. Integrity
2. Objectivity
3. Professional Competence and Due Care
4. Confidentiality
5. Professional Behaviour

Some external reviewers may already be subject to existing professional standards (e.g. professional accountants) and/or be subject to regulatory regimes, (e.g. regulated credit rating agencies) the elements of which already address many if not all of the aims of these voluntary Guidelines. Nevertheless, there are a variety of assurance service professional standards and industry wide code of conducts that external reviewers should look to adhere to, when relevant, when they provide services to Green, Social and Sustainability Bond issuers. For example, external reviewers should especially consider the relevance of the International Code of Ethics for Professional Accountants paying particular attention to section 4B – Independence for Assurance Engagements other than Audit and Review Engagements; the Attestation Standards established by the American Institute of Certified Public Accountants; ISAE 3000 (Revised); Assurance Engagements Other than Audits or Reviews of Historical Financial Information; IESBA Handbook of the Code of Ethics of Professional Accountants, section 291 Independence - Other Assurance Engagements; and the AICPA Code of Professional Conduct (AICPA Code). Also applicable may be the standard provided by ISO 9001 and ISO 14065, as well as certification from the Association for Responsible Investment Services (ARISE).
Organisation and Content of External Reviews

Depending on the type of external review being provided, it is recommended that external reviews confirm alignment with the four core components of the Principles, and that the template available on the GBP SBP webpages of ICMA’s Website be completed as a standard feature of their reports.

While providing external reviews for Green, Social and Sustainability Bonds, external reviewers should ensure that they:

1. Have an organizational structure, working procedures, and other relevant systems for carrying out the external review.
2. Employ appropriate staff with the necessary experience and qualifications for the scope of the external review being provided.
3. If applicable, carry the appropriate professional indemnity / professional liability insurance cover.

External reviews should either include or indicate at a minimum where the following information may be available:

1. General description of the objective, scope of work, and the external reviewer’s credentials, including requisite credentials to evaluate the environmental and sustainability risks and impacts of the GBP and SBP categories.
2. Statement on independence and conflict-of-interest policy.
3. Definitions, analytical approach, and/or methodologies used.
4. Conclusions or output of the external review report including any limitations on the external review.

For a Second Party Opinion, external reviewers should:

1. Have expertise in the eligible green and social bond categories.
2. Assess the environmental and/or social benefits and impact targeted by the eligible Green and/or Social Projects financed by the Green, Social or Sustainability Bond.
3. Confirm/review the alignment with the four core components of the Principles.
4. Evaluate where relevant the potentially material environmental and/or social risks associated with the Projects, identified by the issuer.

Disclosure for External Reviews

The Principles recommend that external reviews be made publicly available on the bond issuer’s website and/or through any other accessible communication channel as appropriate before or at the time of the issuance. It is also recommended that the external review template or a second party opinion be made available online on the Green, Social and Sustainability Bonds Database¹. External reviews may also be made available in respect of previously issued bonds.

Contributors

These Guidelines are voluntary and have been developed through a collaborative and consultative process with leading external reviewers. Please see the GBP SBP webpages on ICMA’s Website for a full list of contributing organisations as well as of those voluntarily aligning with these Guidelines.

¹ At the request of the issuer or external reviewer, the opinion may be removed from the Database if it is deemed to be no longer valid or out of date.
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