



The Social Bond Principles 2017



2 June 2017



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Voluntary Process Guidelines for Issuing Social Bonds

Introduction

The Social Bond Principles (SBP) replace the Guidance for Issuers of Social Bonds issued by the Green Bond Principles (GBP) in June 2016. Social Bonds are use of proceeds bonds that raise funds for new and existing projects with positive social outcomes. The SBP are voluntary process guidelines that recommend transparency and disclosure, and promote integrity in the development of the Social Bond market. They are intended for broad use by the variety of actors participating in the market and are designed to provide the information needed to increase capital allocation to social projects without any single arbiter. The SBP benefits from the input of the 2016 Autumn consultation of the GBP Members and Observers, as well as of the Social Bond Working Group (SBWG).

Social Bond Definition

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 eligible Social Projects (see section 1 Use of Proceeds) and which are aligned with the four core components of the SBP. Different types of Social Bonds exist in the market. These are described in Appendix I.

It is understood that certain Social Projects may also have environmental co-benefits, and that the classification of a use of proceeds bond as a Social Bond should be determined by the issuer based on its primary objectives for the underlying projects. (Bonds that intentionally mix green and social projects are referred to as Sustainability Bonds, and specific guidance for these is provided separately in the [Sustainability Bond Guidelines](#).)

It is important to note that Social Bonds should not be considered fungible with bonds that are not aligned with the four core components of the SBP. Bonds issued under earlier Social Bond Guidance released in 2016 are deemed consistent with the SBP.

Social Bond Principles

The SBP are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Social Bond market by clarifying the approach for issuance of a Social Bond. The SBP are intended for broad use by the market: they provide issuers with guidance on the key components involved in launching a credible Social Bond; they aid investors by promoting availability of information necessary to evaluate the positive impact of their Social Bond investments; and they assist underwriters by moving the market towards expected disclosures that will facilitate transactions.

The SBP recommend a clear process and disclosure for issuers, which investors, banks, investment banks, underwriters, placement agents and others may use to understand the characteristics of any given Social Bond. The SBP emphasise the required transparency, accuracy and integrity of information that will be disclosed and reported by issuers to stakeholders.

The SBP have four core components:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

1. Use of Proceeds

The cornerstone of a Social Bond is the utilisation of the proceeds of the bond for Social Projects (including other related and supporting expenditures, such as R&D), which should be appropriately described in the legal documentation for the security. All designated Social Projects should provide clear social benefits, which will be assessed and, where feasible, quantified by the issuer.

In the event that all or a proportion of the proceeds are or may be used for refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-financing, and where appropriate, also clarify which investments or project portfolios may be refinanced, and, to the extent relevant, the expected look-back period for refinanced Social Projects.

Social Projects directly aim to help address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially, but not exclusively, for a target population(s). Please see below illustrative examples of Social Project categories that seek to achieve positive socio-economic outcomes for target populations.

Social Project categories include, but are not limited to, providing and/or promoting:

- Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport)
- Access to essential services (e.g. health, education and vocational training, healthcare, financing and financial services)

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- Affordable housing
 - Employment generation including through the potential effect of SME financing and microfinance
 - Food security
 - Socioeconomic advancement and empowerment

Examples of target populations include, but are not limited to, those that are:

1. Living below the poverty line
2. Excluded and/or marginalised populations and /or communities
3. Vulnerable groups, including as a result of natural disasters
4. People with disabilities
5. Migrants and /or displaced persons
6. Undereducated
7. Underserved
8. Unemployed

There are several categories and sets of criteria defining Social Projects already in existence in the market that can be used as complementary guidance. Issuers and other stakeholders can refer to examples through links listed on the ICMA webpages at www.icmagroup.org/gssbresourcecentre.

2. Process for Project Evaluation and Selection

The issuer of a Social Bond should clearly communicate to investors:

- the social objectives;
- the process by which the issuer determines how the Projects fit within the eligible Social Project categories identified above;
- the related eligibility criteria, including, if applicable, exclusion criteria or any other process applied to identify and manage potentially material social and environmental risks associated with the Projects.

Issuers are encouraged to position this information within the context of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability. Issuers are also encouraged to disclose any social standards or certifications referenced in Project selection.

The SBP encourage a high level of transparency and recommend that an issuer's process for project evaluation and selection be supplemented by an external review (see External Review section).

3. Management of Proceeds

The net proceeds of the Social Bond, or an amount equal to these net proceeds, should be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner, and attested to by the issuer in a formal internal process linked to the issuer's lending and investment operations for Social Projects.

So long as the Social Bond is outstanding, the balance of the tracked proceeds should be periodically adjusted to match allocations to eligible Projects made during that period. The issuer should make known to investors the intended types of temporary placement for the balance of unallocated proceeds.

The SBP encourage a high level of transparency and recommend that an issuer's management of proceeds be supplemented by the use of an auditor, or other third party, to verify the internal tracking method and the allocation of funds from the Social Bond proceeds (see External Review section).

4. Reporting

Issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and as necessary thereafter in the event of material developments. This should include a list of the projects to which Social Bond proceeds have been allocated, as well as a brief description of the Projects and the amounts allocated, and their expected impact. Where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of detail that can be made available, the SBP recommend that information is presented in generic terms or on an aggregated portfolio basis (e.g. percentage allocated to certain project categories).

Transparency is of particular value in communicating the expected impact of projects. The SBP recommend the use of qualitative performance indicators and, where feasible, quantitative performance measures (e.g. number of beneficiaries) and disclosure of the key underlying methodology and/or assumptions used in the quantitative determination. Issuers with the ability to monitor achieved impacts are encouraged to include those in their regular reporting.

The use of a summary reflecting the main characteristics of a Social Bond or a Social Bond programme, and illustrating its key features in alignment with the four core components of the SBP may help inform market participants. To that end, a template is being made available at www.icmagroup.org/gssbresourcecentre which once completed can be published online for market information by following the instructions at the same link.

External Review

It is recommended that issuers use an external review to confirm the alignment of their Social Bonds with the key features of the SBP as defined above. There are a variety of ways for issuers to obtain outside input into the formulation of their Social Bond process and there are several levels and types of review that can be provided to the market. Such guidance and external reviews might include:

- 1) **Consultant Review:** An issuer can seek advice from consultants and/or institutions with recognised expertise in social issues or other aspects of the issuance of a Social Bond, such as the establishment/review of an issuer's Social Bond framework. "Second party opinions" may fall into this category.
- 2) **Verification:** An issuer can have its Social Bond, associated Social Bond framework, or underlying assets independently verified by qualified parties, such as auditors. In contrast to certification, verification may focus on alignment with internal standards or claims made by the issuer. Evaluation of the social features of underlying assets may be termed verification and may reference external criteria.
- 3) **Certification:** An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against an external assessment standard. An assessment standard defines criteria, and alignment with such criteria is tested by qualified third parties/certifiers.
- 4) **Rating:** An issuer can have its Social Bond or associated Social Bond framework rated by qualified third parties, such as specialised research providers or rating agencies. Social Bond ratings are separate from an issuer's ESG rating as they typically apply to individual securities or Social Bond frameworks/programmes.

An external review may be partial, covering only certain aspects of an issuer's Social Bond or associated Social Bond framework or full, assessing alignment with all four core components of the SBP.

The SBP recommend public disclosure of external reviews, or at least an executive summary, for example by using the template being made available at www.icmagroup.org/gssbresourcecentre which once completed can be published online by following the instructions at the same link. The SBP encourage external review providers in any case to disclose their credentials and relevant expertise, and communicate clearly the scope of the review conducted.

The SBP take into account that the timing of an external review may depend on the nature of the use of proceeds and publication of reviews can be constrained by business confidentiality requirements.

Resource Centre

Recommended templates and other SBP resources are being made available at the Resource Centre at www.icmagroup.org/gssbresourcecentre. Completed templates can be published online for market information at the Resource Centre by following the instructions at the link above

Appendix I - Types Of Social Bonds

There are currently four types of Social Bonds (additional types may emerge as the market develops and these will be incorporated in annual SBP updates):

- **Standard Social Use of Proceeds Bond:** a standard recourse-to-the-issuer debt obligation aligned with the SBP.
- **Social Revenue Bond:** a non-recourse-to-the-issuer debt obligation aligned with the SBP in which the credit exposure in the bond is to the pledged cash flows of the revenue streams, fees, taxes etc., and whose use of proceeds go to related or unrelated Social Project(s).
- **Social Project Bond:** a project bond for a single or multiple Social Project(s) for which the investor has direct exposure to the risk of the project(s) with or without potential recourse to the issuer, and that is aligned with the SBP.
- **Social Securitised Bond:** a bond collateralised by one or more specific Social Project(s), including but not limited to covered bonds, ABS, MBS, and other structures; and aligned with the SBP. The first source of repayment is generally the cash flows of the assets.

Disclaimer

The Social Bond Principles are voluntary process guidelines that neither constitute an offer to purchase or sell securities nor constitute specific advice of whatever form (tax, legal, environmental, accounting or regulatory) in respect of Social Bonds or any other securities. The Social Bond Principles do not create any rights in, or liability to, any person, public or private. Issuers adopt and implement the Social Bond Principles voluntarily and independently, without reliance on or recourse to the Social Bond Principles, and are solely responsible for the decision to issue Social Bonds. Underwriters of Social Bonds are not responsible if issuers do not comply with their commitments to Social Bonds and the use of the resulting net proceeds. If there is a conflict between any applicable laws, statutes and regulations and the guidelines set forth in the Social Bond Principles, the relevant local laws, statutes and regulations shall prevail.





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