Sustainability-Linked Bond Principles
Related Questions

September 2023

The Q&As below will be included in a new Chapter of the Guidance Handbook.
All cross references are related to Q&As of this Guidance Handbook.

List of Abbreviations and Acronyms (extract)

Core Components:	Requirements for the labelling of bonds issued in alignment with the Principles: *For GSS/UoP Bonds:* 1. Use of Proceeds 2. Process for Project Selection and Evaluation 3. Management of Proceeds 4. Reporting *For Sustainability-Linked Bonds:* 1. Selection of KPIs 2. Calibration of SPTs 3. Bond Characteristics 4. Reporting 5. Verification
CTFH	Climate Transition Finance Handbook
GBP	Green Bond Principles
GSS	Green Bonds, Social Bonds or Sustainability Bonds
SBG	Sustainability Bond Guidelines
SBP	Social Bond Principles
SLBP	Sustainability-Linked Bond Principles
UoP	Use of Proceeds Bonds (Green Bonds, Social Bonds and Sustainability Bonds)

4 Core Components of the SLBP

4.1 General features

4.1.1 Are there any minimum requirements in terms of issuer's ESG performance or exclusions in terms of business activities or practices?

No, the SLBP do not prescribe a minimal level of ESG performance nor consider any exclusions. However, SLBs is best suited for issuers that have integrated their business strategy with their sustainability strategy and therefore are advancing in their ESG journey. Nonetheless, when climate change is identified as a core, relevant and material issue for a given issuer (from a strategic, operational and impact perspective), the CTFH provides relevant guidance and pre-requisites when it comes to KPI materiality, climate strategy and expected disclosure.

Unless issuers choose to combine the GBP/SBP ('use of proceeds' format) with the SLBP, the proceeds of SLBs are intended to be used for general corporate purposes (or for general budgetary needs for Sovereign SLBs). As a result, proceeds may be used to finance any kind of types of activities that the issuer is pursuing (see Q 1.2 above). However, it is the responsibility of the issuer to explain the credibility and ambition of their SLB and overall sustainability/transition strategy.

Many investors take into consideration the quality of the issuer's overall ESG profile. Investors may take into consideration the broader conduct of the issuer in order to evaluate the level of ambition of the chosen KPI(s) as well as to assess the likelihood of the issuer achieving the SPTs. Investors with a focus on sustainability may apply exclusion criteria and minimum requirements with respect to ESG performance.

4.1.2 Can Sustainability-Linked Bonds be issued by issuers at the start of their transition journey i.e., issuers not yet able to claim alignment with the Paris Agreement or similar relevant benchmark on the theme the KPIs address, but taking ambitious steps in that direction?

SLBs are accessible to all issuers, regardless of sector, geography or level of sustainability provided selected KPIs reflect issues which are 'core', material, and relevant, and the associated targets are ambitious.

In the case of GHG emissions reductions and performance targets, issuers may also – on a best-efforts basis, in a comply or explain spirit – seek to demonstrate alignment with the voluntary guidelines set out in the CTFH, which requires alignment with the goals of the Paris Agreement and sets out the recommended disclosures. This may be especially pertinent to issuers from "hard-to-abate" sectors in establishing a climate transition focus by aligning their SLB framework and targets with the guidance set out in the CTFH.

Many investors take into consideration the quality of the issuer's overarching sustainability and may apply a variety of exclusion criteria, and minimum requirements with respect to ESG governance, management and performance.

4.1.3 How can issuers, investors and market participants measure the sustainability impact related to an SLB?

Whereas formally the impact of an SLB is related to the issuer's success in meeting what should be ambitious and robust SPTs, the impact of an SLB is also via its role as a reinforcement mechanism on the accountability of the issuer's overall and transparent commitment to core sustainability targets.

4.1.4 What are the main differences between the SLBP and the Sustainability-Linked Loan Principles (SLLP)? Can a Sustainability-Linked Bond be used to refinance a Sustainability-Linked Loan?

Both the SLBP and SLLP are voluntary guidelines that aim to incentivise material sustainability achievements by the borrower. Owing to the more public nature and (expected) broad distribution of SLBs, however, the SLBP provide more detailed indications on the definition and calibration of the Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs), and promote a higher level of transparency, requiring that the post issuance verification of the issuer's performance against these targets be made publicly available. This can consequently expose the issuer's strategy, goal-setting and deliverables to the broader market, with the potential for a higher impact on the issuer's reputation. Sustainability-Linked Bonds aligned with all Core Components of the SLBP can be used to refinance Sustainability-Linked Loans.

4.1.5 Are there any specific disclosure recommendations regarding issuers that have already established sustainability-linked loans?

No, the SLBP do not specify disclosure recommendations regarding already established sustainability-linked loans. As borrowers of sustainability-linked loans, SLB issuers that have already established such instruments are encouraged to publicly report information relating to the SPTs used (e.g. previous KPIs included and level of ambition and justification for a change). However, it is noted that as per the Sustainability-Linked Loan Principles, borrowers may choose to share this information privately with the lenders rather than making this publicly available.

By disclosing information regarding outstanding sustainability-linked loans (e.g. previous KPIs included and level of ambition) as part of their SLB communication, issuers could allow investors to holistically assess how their financing is linked to the issuer's sustainability targets. SLBs should be ambitious on a standalone basis and ongoingly. They should therefore not represent a step back from outstanding sustainability financing KPIs and SPTs.

4.2 Selection of KPIs

4.2.1 What do the SLBP mean by "material" KPIs?

The notion of materiality is multi-faceted. It can be understood from a few different vantage points:

- an economic lens or a strategic planning exposure (i.e. the E and/or S and/or G issues captured by the chosen KPIs are the ones that have the greatest impact on the relevant activity, strategic orientation and the issuer's operational and potentially financial performance). and/or
- a sustainability standpoint, where the ESG issues captured by the KPIs have the highest impact on the environment and/or society, whether to external stakeholders or internally).

Materiality maps such as SASB[1] [2](for corporate issuers specifically), and as reflected in the sector materiality matrix of the Illustrative KPIs Registry, can provide helpful guidance for issuers.

Multiple KPIs may be relevant, even for a single tranche, especially where a 'basket' of KPIs is needed to holistically encompass a material sustainability theme, or in order to appropriately capture all the materiality dimensions of the issuer. Please see the description of Core and Secondary KPIs on the "Note to Users" tab of the Illustrative KPIs Registry, for additional insight.

For a sovereign or sub-sovereign issuer, the notion of materiality means that it should reflect one of the most material sustainability challenges on the country or regional level.

The KPIs may involve policy indicators (e.g. greenhouse gas emissions after implementation of a carbon tax or progress towards net zero target) that governments can influence. A policy or intervention accompanied by an impact assessment that clearly outlines the expected outcomes and impact of the intervention may provide a more informed and balanced assessment of the country's progress in achieving its goals.

4.2.2 What are the benchmarks, standards or frameworks that can be used to identify relevant and material KPIs?

Issuers may reference or take inspiration from regulatory standards or taxonomies, as well as any internally or externally performed materiality assessment in the choice of relevant KPIs. Examples of external guidance and/or tools that issuers may reference include: the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), the Task Force on Climate-related Financial Disclosures (TFCD), the International Integrated Reporting Council's Framework, Accountability's Materiality Framework, and the various reports produced by the EU Platform on Sustainable Finance. The Illustrative KPIs Registry available on ICMA's website includes a suggested sustainability 'materiality matrix' by sector, and provides core and secondary KPIs by sector, as well as an indicative list of global benchmark and sector initiatives for suggested KPIs.

When climate change is identified as a core, relevant and material issue for a given issuer (from a strategic, operational and impact perspective), the CTFH provides relevant guidance and pre-requisites when it comes to KPI materiality, climate strategy and expected disclosure. Several initiatives provide more detailed resources and guidance on the level of ambition to support climate-related KPIs, notably in line with a net zero decarbonisation pathway and regional, sector or international climate change scenarios. Several of these are listed in the CTF Methodologies Registry.

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[1] The International Sustainability Standards Board (ISSB) is developing sustainability-related disclosure standards that will build on existing reporting initiatives such as SASB.

[2] https://www.sasb.org/standards/materiality-map/.

It is important to identify the robustness of all data sources used for KPIs, including the reliability of the information providers, and the frequency, consistency and longevity of the indicator, given the dataset may have to be used over a long period. Where sovereign KPIs come from national statistics, such as household surveys, efforts should be made to use independent third-party verification (neutral, non-government controlled or influenced) to ensure that the statistics collected are accurate, reliable and lead to meaningful outcomes.

4.2.3 Can a third party ESG rating serve as KPI for a SLB?

In principle, an issuer's ESG rating as provided by an external sustainability/ESG rating agency may serve as KPI for a SLB. Issuers should clarify if they are using either an ESG rating as a whole, or specific E and/or S and/or G-related components of the overall rating as their target KPIs. Given diverging and evolving rating methodologies and rating scales, as well as other characteristics (e.g. subjectivity), where an ESG rating is not accompanied by other KPIs, issuers are expected to explain why an ESG rating may be the best indicator to reflect their core business ESG challenges and disclose the kind of rating (solicited vs unsolicited). In addition, issuers should be aware that they hold no direct influence on the evolution of their ESG ratings and, in choosing them as KPIs, they risk not reaching any set SPT(s).

There may also be regulatory or licensing constraints to using ESG ratings as KPIs that the issuer should consider.

4.2.4 Can "green" capex be used as a KPI?

An SLB in alignment with all core components of the SLBP may include a KPI related to "green" capex, as a 'means oriented' KPI. This may be especially relevant for industries where targeted capital expenditure may be an integral part of the decarbonisation/transition strategy of certain industries and may be presented as a percentage of the overall capex.

It is nonetheless, important to note that an increase in "green" capex does not guarantee the actual decarbonisation of a particular business model, depending on the sector.

Furthermore, there is currently no globally consistent definition or market understanding of what constitutes "green" capex. Issuers may, for instance, seek to use a jurisdictional reference, such as the EU Taxonomy[3]; seek external review of their green capex definition; and/or provide a rationale to support their definition.

In cases where a Scope 3 GHG emissions KPI/SPT is not feasible, issuers may consider using a "green" capex KPI as one of the potential supportive proxies for demonstrating their commitment and progress towards reducing GHG emissions in the industry.

4.2.5 Can the KPIs be at project level? Or do they need to be at corporate level?

Yes, the KPIs can be at a project level provided that any such KPI fulfils the first and second principles of the SLBP in terms of KPI selection and calibration of the SPTs. In particular, this means that the KPIs should still be "relevant, core and material to the issuer's overall business, and of high strategic significance to the issuer's current and/or future operations", which may be less clearly defined for KPIs that are solely project-related.

[3] In this respect, see Commission Recommendation (EU) 2023/1425 of 27 June 2023 on facilitating finance for the transition to a sustainable economy https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023H1425#:~:text=This%20Recommendation%20is%20addressed%20to,finance%20tools%20for%20this%20purpose.

4.2.6 When the issuer is an issuing subsidiary within a larger group: should it use its own KPI or can it use group KPIs?

KPIs could be KPIs related to the group or set independently of the issuing entity, as long as they are relevant, core and material to the issuer. In addition, it is also recommended that the issuing subsidiary's KPI(s) be consistent with the group's overarching sustainability strategy.

4.2.7 Do the Principles provide specific resources regarding KPIs for SLBs from Sovereign, Supranational and Agency issuers?

The Illustrative KPIs Registry while being primarily relevant for corporate issuers has been updated in June 2023 to include some metrics that can be used by Sovereign and sub-sovereign issuers. Such metrics can also be adapted by Supranational and Agency issuers. The World Bank Group has published a report that specifically suggests a list of potential KPIs for sovereign SLBs[4]. The suggested metrics in the Harmonised Framework for Impact Reporting for Green Bonds and in the Harmonised Framework for Impact Reporting for Social Bonds may also be relevant.

4.3 Calibration of SPTs

4.3.1 How should differences in the sector, geography, governing laws and environmental policies be reflected when defining the ambition of SPTs?

The issuer should select KPIs and SPTs in relation to the specific sectors and local context with ambitious SPTs based on a combination of benchmarking approaches, such as historical and externally verified values, those selected by the issuer's peers, and industry or sector standards, incorporating recognised Best-Available-Technologies or other proxies in the sector/industry.

The rationale for a sovereign issuer's selected KPIs and SPTs may be based on the government's policy and sustainability strategy, and use models to demonstrate achievement over and above what can be expected from existing macroeconomic/sustainable development policies (i.e. business-as-usual). Sovereigns should provide a clear rationale for choosing a particular peer group for benchmarking the SPT (i.e. similar income level, economic and demographic structure and/or climate or biodiversity characteristics) given that that each country's national circumstances and priorities require nuanced considerations.

Targets should be set, as a minimum, to be in line with official country/regional/international targets (e.g. the EU Taxonomy of sustainable activities, the Chinese Green Bond Endorsed Project Catalogue[5], Paris Agreement, 2030 Agenda on SDGs, Kunming-Montreal Global Biodiversity Framework (GBF)[6], etc.), and when possible, should aim to go beyond such levels. For example, climate-related targets should be set in line with 'science-based' scenarios.

Creating forward-looking projections and scenarios based on government policies or other strategic initiatives is important for assessing the ambition of a sovereign issuer's SPT.

It is understood that sustainability priorities are likely to vary depending on the economic, environmental, social and political context of different geographies in which issuers are domiciled or where they have the largest proportion of their activities situated. For example, environmental SPTs that may be regarded as modest in ambition in developed economies, could be highly ambitious in

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[4] November 2021: https://documents1.worldbank.org/curated/en/935681641463424672/pdf/Striking-the-Right-Note-Key-Performance-Indicators-for-Sovereign-Sustainability-Linked-Bonds.pdf.

[5] The Green Bond Endorsed Projects Catalogue (2021 Edition) was jointly announced by the People's Bank of China (PBOC), the National Development and Reform Commission (NDRC) and the China Securities Regulatory Commission (CSRC) on 21 April 2021 http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4342400/2021091617180089879.pdf.

[6] https://www.cbd.int/gbf/.

regions where the decarbonisation effort is less advanced. Similarly, differences in social factors including demographics, workforce participation and gender equality where issuer activities are undertaken may mean that what is regarded as an ambitious target in one region may not be accepted as ambitious in another.

The Principles invite issuers to clearly communicate to investors the references to the benchmarks selected, and how the specificities of a given sector and/or local context have been identified and addressed.

4.3.2 Is it possible to use ranges, dynamic targets, and/or benchmarks (as opposed to all being "set" before the issuance of the bond) including to allow for a reasonable margin of error?

The SLBP state that SPTs should "where possible be compared to a benchmark or an external reference" and "be determined on a predefined timeline, set before (or concurrently with) the issuance of the bond". While such SPTs will be the most transparent and easiest to calculate, some issuers may select a range, or dynamic targets that could change over the life of the bond. Examples may include, but are not limited to, a "Most Favoured Nation" clause, or a target to remain in the top [quartile] of an industry or peer group with respect to a particular KPI. Issuers should keep in mind that in such situations, the calculation and evaluation of a KPI against an SPT must remain transparent, specific, and replicable over time. Language which leaves room for interpretation – for example as to whether or not to apply a most favoured nation clause, or to modify a peer group (for example due to M&A activity of peers) is discouraged. The scale of any range should be clearly defined, with any margin of error being commensurate.

4.3.3 What governance process should be established by the issuer to monitor the achievement of SPTs?

The issuer should not only select the relevant KPIs and related SPTs as per the components 1 and 2 of the SLBP, but also ensure proper monitoring, disclosure and verification as per component 4 of the SLBP.

Issuers should also consider potential requirements to file such information with securities' regulators, when required, as the price change in a security due to a change in bond characteristics could be considered financially material.

Issuers should publish their performance level against each SPT for each KPI on a regular basis, ideally once a year, and seek independent and external verification (for example limited or reasonable assurance) by a qualified external reviewer with relevant expertise, such as an auditor, a sustainability consultant, or a multilateral organisation/agency. In any case, such publication and verification should be made for any date/period relevant for assessing the SPT performance leading to a potential adjustment of the SLB financial and/or structural characteristics. Even if a verified update of the performance levels against each SPT for each KPI is not possible for a sovereign issuer every year, the issuer is expected to provide investors with information on the levers actioned/means deployed towards each SPT on an annual basis.

4.3.4 Can an SLB be issued with any target observation date?

It is recommended that issuers include (a) target(s) that is/are appropriate for the financial instrument selection. In general, it is recommended to include an intermediate observation date. For example, for a 10-year bond an approximately 5 to 7-year observation date should be considered as the latest.

In line with the CTFH, relevant interim targets on the trajectory towards the long-term goal are recommended, including references to near-term alignment with science-based targets and transition pathways. Visibility on any long-term trajectory is also recommended to be provided to investors even if not necessarily disclosed as an SPT per se.

4.3.5 Can SLBs be issued with a call date that precedes the target observation date for the SPT?

Issuers should ensure the structure of any SLB requires their performance against at least one SPT be evaluated, prior to the bond becoming callable at the issuer's option at a pre-determined price. Where there is an early first call date, and evaluation against an SPT is impracticable, such as short first dates which could render ambitious public target setting challenging, investors will likely expect the call price to reflect an assumption that the SPT has not been met. It is therefore highly recommended that issuers set the target observation date/payment of penalty date before the call date.

4.3.6 Can SLB issuers use absolute or intensity-based KPI / SPT?

Issuers can use both absolute and intensity-based metrics, provided that they represent ambitious and appropriate measures of progress.

In the case of climate change mitigation-related KPIs & SPTs:

- Intensity targets are usually defined based on two approaches: the Sectoral Decarbonization Approach (SDA), and the Economic Intensity Contraction approach (Greenhouse gas emissions per unit of value added ("GEVA")) as defined by the Science-Based target initiative. It is recommended to use SDA where available; in any case, intensity targets are recommended to be set if they lead to absolute reductions in line with climate science.
- Targets should, to the extent feasible, be formulated both in intensity and absolute terms (as per the CTFH).

Issuers are encouraged to set targets without considering offsetting efforts in particular the use of carbon offsets. In any case, it is recommended to provide information on offsetting projects (if applicable), any related impact calculations and the rationale behind their selection, as recommended in the Net Zero guidance by SBTi.

4.3.7 Is it possible to rely on M&A (including, e.g. asset acquisitions, divestments / phase out) to achieve SPT(s)?

Issuers of SLBs can achieve targets via acquisitions or divestments (e.g. acquiring renewable energy assets, exiting fossil-fuel businesses or assets) under conditions or (gradual) phase in/phase out.

The SLB market aims to contribute to robust and ambitious real world sustainability objectives, therefore the credibility of any SPTs that are achieved through M&A will typically be assessed accordingly. For instance, where divestment rather than decommissioning is considered, investors will typically be concerned that all environmental and social challenges associated with the divested assets will be transparently addressed.

As highlighted in the Appendix II of the SLBP - SLB Disclosure Data Checklist, investors will expect:

- pre-issuance: language to take into consideration the potential impact of M&A activities on the calculation of KPIs, the restatement of SPTs and/or pro-forma adjustments of baselines or KPI scope; as well as
- post-issuance: disclosures on the impact of M&A activities on the evolution of the KPI on an annual basis.

Issuers should further underpin the credibility of all M&A activity, especially where it is a means to achieve any SPT, through the following disclosures:

i. how acquisitions and/or divestments form part of the issuer's overall ESG strategy;
ii. if available and can be publicly disclosed, the process by which the issuer has sought to ensure that any new owner of divested assets has a credible sustainability strategy and robust commitments to ensure that such assets will be part of a decarbonisation plan with no prolongation of the assets' lifetime beyond that originally envisaged at the setting of the SPT and that potential adverse impacts are minimised;

iii. confirmation that the issuer retains no interest/control in any asset moved off balance-sheet, or where M&A activities give rise to sale-leaseback contracts or other corporate structures (such as SPVs, JVs etc.), additional transparency on the resulting effective environmental/social impacts for the issuer and for society; and
iv. the estimated contribution of M&A in their decarbonisation/transition plan, and more specifically any contribution to the achievement of the SPTs described in their SLB framework.

4.3.8 Are SBTi [or SBTN] approved targets needed to issue an SLB?

No, independently validated or otherwise 'approved' targets are not, strictly speaking, 'needed' to support an SLB issuance. However, it is recognised that some investors may value independent validation of targets as 'science-based' and view such validation (or intent to secure validation) where available/feasible (be it through SBTI or comparable science-based schemes or simply scientific decarbonisation scenarios such as ACT and IEA) as best practice and as serving to enhance the credibility of any stretching SPTs presented via a Sustainability-Linked Bond instrument. Should credible decarbonisation pathways exist for a given region and/or sector, it is strongly recommended that an issuer establish ambitious targets which are aligned to these.

The Science-Based Targets Network's "Science Based Targets for Nature" (SBTN) initiative is at a relatively early stage of development, and while the benefit of externally validated targets also pertains to biodiversity, issuers may seek to monitor the development of biodiversity metrics as well as science-based benchmarks and validation schemes before using these schemes.

To note, science-based pathways might not be feasible when it comes to social KPIs. If the issuer of an SLB wants to use social KPIs, other sources/repositories might be of better use.

4.3.9 Should SLB issuers publish annual SPTs?

Annual SPTs are not a requirement. The ability to define meaningful annual targets largely depends on the nature of the KPI which has been selected and the maturity of the SLB. A trajectory or performance improvement pathway may be mapped out based on a number of interim targets over time, and it may be possible to define annual targets in this context. However, it is clear that for some business models and some KPIs, significant performance improvements will only be possible over an extended (multi-year) period of time, based on substantive adjustments to the business model and associated infrastructure and assets, and inclusion of annual targets may not be appropriate, particularly in the short term. Nevertheless, annual reporting on the progress against pre-defined SPTs and interim targets is expected to allow investors to track on a yearly basis the actual trajectory of the issuer.

4.3.10 How might an SLB issuer use the UN SDGs to calibrate their target?

As the SDGs generally provide a broader and more qualitative frame of reference, they may be challenging to use to guide SPT(s) calibration. Demonstrating an individual issuer's contribution to a given SDG target may lack credibility, especially in the absence of widely accepted science-based benchmarks or scenarios for all SDGs.

Nevertheless, SDG related metrics can theoretically be used as KPIs where they address core, material and relevant ESG matters to an issuer, or in conjunction with other benchmarking approaches. Sovereign issuers in particular may, for instance, be able to demonstrate their measurable contribution to local SDG gaps through geo-spatial analysis. There are initiatives and resources in the market that may be of help to issuers when mapping KPIs to the SDGs, including, for example:

- UNDP's impact practice Standards for SDG bond refers to standardised metrics (e.g. GRI, SASB, IRIS+) that are linked to specific SDG targets or outcomes and set across the Five Dimensions of Impact developed by the Impact Management Project.
- GRI, UN GC and WBCSD's 'SDG Compass' includes inventories of business tools and indicators mapped to the SDGs.

- [PIMCO’s Guidance for Sustainable Bond Issuance] lists examples of initiatives that suggest targets at the corporate issuer level that may be mapped to the SDGs, e.g. CEO Water Mandate, RE100, EV100, Science-based target initiative or the New Plastic Economy Global Commitment.
- Sustainable Development Solutions Network (SDSN) which, based on public statistics, assesses national and local SDG gaps.

4.3.11 How can issuers deal with the selection of only some but not all of the KPIs and SPTs set out in their framework?

SLBs issuers are encouraged to state clearly in their frameworks and other marketing materials that SLBs may be issued referencing one or some (but not all) of the KPIs and SPTs set out in the framework. In that case, it must be explicit that investors will need to check the terms and conditions to determine which KPIs and SPTs are selected in the context of each individual SLB.

When selecting only some but not all of the KPIs and SPTs set out in their framework, issuers are encouraged to respect the SLBP fundamental principles when it comes to selection of KPI(s) for a given transaction, i.e. relevant, core and material. These principles apply to each transaction-specific combination of KPI(s). SPO providers are encouraged to specify in their report the combination of KPIs demonstrated to be ‘relevant, core and material’ and/or indicate for each KPI/SPT, if it could be used on a standalone basis. Additional guidance is provided in the Illustrative KPIs Registry, with regards to ‘core’ and ‘secondary’ KPIs at sector level.

4.4 Bond characteristics

A Adjustments and changes to financial characteristics

4.4.1 How can issuers evaluate the meaningfulness of any adjustment to the bond financial characteristics?

A key objective underlying SLBs is the reinforcement of the accountability of issuers with regards to their sustainability targets, through introduction of a tangible incentive for achieving targets or, conversely, a penalty for missed targets in addition to any associated reputational/credibility concerns. Further, the SLBP recommend that trigger event(s) lead to a meaningful and commensurate variation in the financial and/or structural bond characteristics relative to the issuer’s original bond (i.e. v. the initial characteristics of the bond irrespectively of its SLB structure).

Investors may prefer that the incentive mechanism embedded in an SLB reflects the specificities of (i) the issuer (e.g. size, industry), (ii) the transaction structure (e.g. tenor, call features, SPT evaluation date(s), and credit rating – especially classification as an investment grade v. high yield offering), and (iii) the relative and absolute ambition of the target(s). Investors may consider the meaningfulness of the adjustment offered in the context of the issuer’s overall cost of borrowing and to evaluate SLB structures with a particular focus on comparable issuers/issuances in the same region and/or currency.

This is the responsibility of the issuer (with the assistance of arrangers or other stakeholders such as second party opinion providers or external reviewers) to present their rationale for considering the economic value associated with the incentive mechanism to be meaningful and commensurate in the context of their funding program, in order to allow investors to opine on it. Issuers may further wish to demonstrate a relationship between SLB issuance amounts, the funding needs associated with the achievement of the selected sustainability performance targets, and the change in financial characteristics of their SLB issuance and/or programme.

Factors issuers may consider in designing incentive mechanisms and/or factors investors, external reviewers and other market participants may consider in evaluating incentive mechanisms could include:

- The absolute value of the penalty and proportion of the issuer's overall borrowing costs or spread which would be attributable to any economic adjustment to the bond (e.g. % increase in bond market borrowing costs which would be associated with any coupon step-up, step-up x period for which it may apply
- Ability to present any penalties in context of other corporate benchmarking criteria (e.g. presentation of SLB penalties in context of overall company debt service obligations, corporate earnings (EBITDA), volume of capex/opex dedicated to achieve the SPT(s), cost of risks and/or compensation measures related to the non-achievements of the SPT(s), etc.).
- Ability to benchmark against the proposed adjustments made by preceding SLB issuers and transactions that are comparable, e.g. in terms of issuer's credit rating, issuer's nature of business, maturity and size of the transaction, etc.
- Non-financial incentives, such as reputational, or market profile impacts on the issuer if SPTs are missed.

4.4.2 What are the relevant changes in the bonds characteristics as alternative to coupon step-ups? And what would make them credible?

While coupon step-ups are most commonly used, other changes to financial characteristics, such as coupon step-downs, one-time payments and non-financial penalties, may be considered in light of their respective ability to align with the SLBP, i.e. be commensurate and meaningful relative to the issuer's original bond financial and/or structural characteristics.

- Step-down: A step-down mechanism enables an issuer to receive the incentive benefit only after the targets are achieved but raises specific considerations for investors. Issuers are well-advised to clearly communicate to the market their strong rationale for choosing a step-down structure prior to issuance, given the impact on investors' returns and the challenge to price the value of the step-down.
- Changes to the principal payment/redemption price: where the payment is at the end of the life of the bond, intermediate observation dates are still encouraged to be included unless the deal is short-dated (as per the Q 4.3.4 and 4 3 5).
- A make-whole call provision/callable structures: a recent World Bank study has highlighted the distinction between call options with the potential to minimise applicable penalties and all other type of options (such as clean-up calls and make-whole calls). Adjusting the pre-payment premium (or call option) could be credible provided the issuer does not circumvent the premium payment by redeeming early.
- One-time payment/Premium payment: the amount should be commensurate with a potential coupon step-up structure.

Changes to other structural characteristics or non-financial penalties are not precluded by the SLBP but some limitations should be noted, including increased complexity overall:

- Payment of a penalty in the form of carbon credits (on top of carbon credits that would be used to offset non-abatable residual GHG emissions): issuers are encouraged to set targets without considering offsetting efforts as per Q 4.3.6. If a penalty in case of non-achievement of the SPT is paid in the form of carbon credits (instead of cash) by the issuer, then the amount of such penalty should be meaningful and equivalent to at least the amount that would be paid in cash with a potential coupon step-up structure and/or to the level of missing GHG emissions reduction.
- Investments in pre-defined eligible projects beyond a business-as-usual budget in relation with the missed targets; this can prove challenging to demonstrate and monitor.

- Donations to pre-determined beneficiaries beyond a business-as-usual budget. Consensus agreement on an appropriate donation as well as its relevance and materiality to an issuer's overall business is likely to prove challenging, however, without a demonstrable link to the KPI/SPT.

B Change of KPIs or SPTs

4.4.3 Can an issuer amend how it calculates a KPI or changes an SPT prior to the maturity of an SLB?

KPI(s) and SPT(s) will be fixed in the legal terms and conditions of an SLB at the point of issuance. Therefore, to the extent there is to be any discretion as to how a KPI is calculated or potential for an issuer to change an SPT prior to maturity, it must be explicitly contemplated in the legal documentation (provisions have been observed in the market requiring the issuer: (i) to act in good faith; (ii) to make appropriate disclosures to bondholders and (iii) have an external party verify that the new KPIs/SPTs reflect at least the same level of materiality and ambition).

Issuers are encouraged to clearly communicate with reasonable detail the rationale for recalculation and/or restatement optionality, or set out a restatement policy as part of their framework and/or legal documentation via clauses that are explicit, detailed and incorporated in a systematic way

The definition of a one size fits all quantitative recalculation threshold for all types of KPI/SPTs might prove to be challenging, though when relevant and feasible, issuers are encouraged to define their own quantitative threshold for mandatory recalculation in the event of material impact on their baseline/KPI or SPT. For example, the GHG Protocol recommends that companies set out a recalculation policy so that a significant threshold with qualitative and/or quantitative criteria is described in sufficient detail at the outset of the target being set. Regarding the baseline recalculation, the GHG Protocol recommends that companies 'shall develop a base year emissions' recalculation policy, and clearly articulate the basis and context for any recalculations. If applicable, the policy shall state any "significance threshold" applied for deciding on historic emissions' recalculation', detailing cases that timeline recalculation of base year emissions, e.g. mergers, acquisitions and divestments Based on recently observed market practices, issuers may recalculate in good faith the levels of the baselines, SPTs and/or KPIs to reflect any material impact (e.g. impact causing a change of at least 5%) on the initial levels of the SPTs, baselines and/or KPIs.

It is recommended that the issuer should seek an external review such as an updated SPO, confirming inter alia that the changes would result in the SPTs being no less ambitious than those originally set, that the SLB continues to align with the SLBP, that there continues to be consistency with the issuer's sustainability strategy, that there is no (material) impact on the original SPO, and/or that changes to calculation policies are aligned with the SBTi methodology (or another relevant recognised body).

4.4.4 What KPI and/or SPT recalculation events should be included in the framework and/or legal documentation?

KPI and/or SPT recalculation events, or changes in the baseline against which a KPI is measured, may include (amongst others):

i. changes of applicable methodology or data sources for calculation (including correction of errors and/or new or more accurate data sets);
ii. evolution of the issuer's perimeter (e.g. in terms of activities, business, employees – typically including both acquisitions and divestments), evolution of the calculation perimeter and organic business development;
iii. force majeure events;
iv. changes in market practice or industry standard, any applicable laws, regulations, rules, guidelines and policies relating to the business of the issuer.

Clauses must disclose the recalculation event with reasonable detail and with appropriate cross-references or mentions throughout the framework and/or legal documentation depending on regulators' specific expectations.

4.4.5 How should bond characteristics be defined where more than one SPT(s) has been defined, but only one of the SPTs is achieved?

Issuers should act in good faith to respect the SLBP in the structuring of the bond characteristics. No specific approach is recommended, but a case-by-case structuring exercise should be done depending on the selected KPIs.

For example, the weighted approach between SPTs (i.e. partial impact on the bond characteristics in case one of the SPTs is missed) can be relevant, for example when:

- Discrete sustainability topics are covered (such as 1 KPI relating to climate and 1 KPI relating to gender).
- A combination of both management objectives and impact KPIs is applied.

Conversely, the "all-or-nothing" approach (i.e. full impact on the bond characteristics in case one of the SPTs is missed) could be more compelling and relevant in cases, for example, where a 'basket' of KPIs is used to encompass the necessary scope of a given theme (to ensure abidance by the core, relevant and material principles), e.g. all GHG emissions Scopes. In other words, investors are asked to look at the basket as a "whole", possibly because no single KPI is core.

In any case, the mechanism should be clearly pre-defined at the time of the issuance, and the decision between the two approaches (partial impact or all-or-nothing) should be chosen by the issuer and duly explained to the market.

4.4.6. Can an issuer pick and choose among the set of KPIs and SPTs outlined in its framework for each issuance, and each tranche within an issuance?

In the event of a multi-tranche/multi-bond issuance in an SLB format, the issuer should ensure each individual bond/tranche presents a comparable level of quality, integrity and ambition (taking into consideration the consistency between the maturity of the bond/tranche and the horizon of the considered KPI/SPT).

In cases of multiple KPIs and ad hoc SPTs being included, see Q 4.3.11.

4.4.7 What are the conditions under which it would be considered necessary for an issuer to carry out a bondholder consent solicitation process?

The terms and conditions of most SLBs usually envisage types of events potentially distorting KPIs/SPTs (see Q.4.4.3), including remedying actions. However, where a change to the KPI(s) and/or SPT(s) is not expressly contemplated in the terms and conditions of the bond subject to applicable laws, the issuer need to assess the need of obtaining bondholders' consent for a change to the KPI(s) or SPT(s).

In most jurisdictions, an amendment to the terms and conditions, is likely to require bondholder consent, even if the reason for the need to adjust KPI(s) and/or SPT(s) relates for example to factors outside of the issuer's control. In any case, issuers are encouraged to consider an external reviewer's independent confirmation that the proposed adjustments are consistent with the initial level of ambition of SPT(s) or higher.

Generally, issuers are encouraged to adopt a recalculation policy and reflect this appropriately in their bond terms and conditions. Such recalculation policy could provide future flexibility in limited pre-defined circumstances, including related to events which are outside of the issuer's control. A carefully considered recalculation policy, which is reflected in bond terms and conditions, may reduce the instances in which an issuer needs to seek bondholder consent. Any potential recalculation events should be clearly defined.

4.4.8 If an issuer has already issued an SLB with KPIs and SPTs, should new SLBs in subsequent years have updated SPTs to reflect the progress made on the original SLBs?

As per the SLBP, any new SLB issuance should reflect the most up-to-date sustainability strategy of the issuer described in its framework (this could be the original framework if it is still valid or an updated version of it). Reference to the progress made on the original SPTs is likely to be a relevant update to the framework ahead of a new issuance.

While it is possible to have multiple SLBs outstanding that refer to different SPTs, it is potentially more difficult for an issuer to manage operationally, and it may be preferred to align with the general sustainability strategy of the issuer if such alignment is possible and provided the parameters of any such outstanding SLBs are identical (see Q 4.4.9).

4.4.9 Should issuers update outstanding SLBs with more ambitious SPTs of subsequent transactions or of a new framework? (2023)

Issuers may want to consider whether it is possible to include a mechanism in their terms and conditions to provide for their outstanding SLBs to be updated if they were to issue subsequently SLB(s) (or when updating their framework) with the same KPI(s) (as well as perimeter, methodologies, baseline, and observation date(s)) but with more ambitious SPT(s). To be effective, any such mechanism would need to be clearly drafted and its scope well defined. Issuers will need to take legal advice in any case to assess whether such updates require the consent solicitation of investors. It is also recommended that changes to SPTs that will impact an outstanding issuance be reviewed by a qualified external reviewer (in addition to other SLBP requirements and recommendations relating to external reviews).

When issuers do not decide to update their outstanding SLB(s) when issuing new SLB(s) (or when updating their Framework) with the same KPI(s) (as well as perimeter, baseline, methodologies, and observation date(s)) but with more ambitious SPT(s), they are recommended to consider how this may potentially affect the secondary market for their outstanding SLBs.

4.4.10 Do any specific requirements apply in relation to the early refinancing of an existing SLB?

Issuers should communicate with full transparency when refinancing or buying back an SLB prior to the first observation date. Careful consideration should be given to address any concerns regarding a perceived intention to avoid a potential failure to meet SPT(s). When an issuer is refinancing an SLB with a new one, it must be aligned with its current framework and the latest edition of the SLBP.

4.5 Reporting

4.5.1 Should the SLB's reporting process be aligned in timing to the issuer's regular financial reporting?

There is no such requirement as part of the SLBP. The timing of the annual reporting relative to an SLBP issuance or programme is not prescribed, but the issuer would need to disclose it ahead of issuance. However, since KPIs are likely to be part of the issuer's annual reporting exercise, the coincidence of timelines is therefore more likely and welcome by investors (that can process all the information at once). In which case, this might result in a rather short or long first reporting cycle depending on the timing of the first issuance vs the issuer's annual reporting cycle.

4.5.2 How should the issuer report in the case of an SLB programme with several issuances?

Issuers are encouraged to report in a user-friendly format (e.g. table) key information on all their SLBs outstanding and issued to date to allow an overview of their SLB program (including but not limited to the Market Information Template), e.g. bond framework KPI(s) and SPT(s), bonds SPT(s), baseline value, issue date, baseline and target years, maturity date, trigger point(s), penalty (including relevant details, e.g. type of penalty, penalty of each KPI and in combination if there is more than one), callability, external verification of the framework and SLB reporting (including relevant details, e.g. level of assurance), external verification of the target and date when obtained (e.g. SBTi), and use of proceeds (if specific, e.g. M&A, or combined SLB-GSS bond).

4.5.3 What type of information should issuers disclose to demonstrate the credibility of their strategy to achieve the SPT(s)?

Issuers are expected to provide as much information as they can regarding the strategic planning and levers expected to be activated to reach the targets, including supporting investments and initiatives, interim milestones, estimated contribution of each lever. The associated ownership and governance in place and potential headwinds/limitations to reach their target are also relevant. Issuers are encouraged also to disclose the evidence and data used to build their strategic plan, including past performance (at least data over the last 3-years), baseline, calculation methodologies and external review results if any. In particular, issuers are encouraged to demonstrate how their strategy is consistent with their long-time horizon business model and is going beyond a business-as-usual approach from their own perspective, from a sector view and against science-based, international and/or industry standards or agreement. If available, issuers may also report the materiality of the target in terms of expected impact on the operations of the company.

During the lifetime of the bond, periodic disclosure (at least annually) is expected enabling investors to measure progress against SPT. In particular, issuers should include explicit qualitative comments on progress and potential remediation actions in their SLB reporting.

4.5.4 What type of Trigger Event should happen in a case of lack of reporting?

In a case of lack of reporting at the observation date and/or breach of reporting compared with information that was committed within the documentation at pre-issuance, the SPT should be deemed not achieved and respective, predefined trigger events in the case of non-achievement should occur, as documented in the bond characteristics section (i.e. step-up provision or other change in the characteristics of the bond).

In the case that the issuer fails to report in accordance with its pre-issuance commitments within the offering documentation and/or framework, the issuer is encouraged to explain the reason.

If an issuer fails to provide annual/interim reporting in the lead up to an SPT observation date, beyond information that was committed within the documentation on pre-issuance, no specific trigger event is recommended, investors may engage dialogue with issuers at their convenience.

4.5.5 Can corporate issuers use their audited annual report to meet the SLBP reporting obligations? Or do they need to produce a specific document?

Issuers can use their audited annual financial report, as far as it is easy for investors to find the relevant information as set out in the SLBP and as the issuer has committed in the bond documentation and/or framework at pre-issuance (could be for example through a dedicated SLB section). It is recommended that the bond documentation and/or framework disclose where the annual report is to be found and the expected timing of publication. A specific stand-alone document is not required, even if considered as best practice for investors to get direct and dedicated access to the SLB reporting.

4.5.6 Are there any specific reporting requirements for sovereign SLBs?

While all issuers should report on an annual basis, sovereign issuers may have some specificities requiring a tailored approach suitable to data availability and the specific context of each country. Sovereign SLB frameworks should include reporting periods according to data availability timelines and market requirements. The appropriate government authorities responsible for the official publication of reports should be identified in advance of any issuance.

Availability of timely data should be taken into consideration when selecting KPIs. Sovereign data reporting might lag corporate reporting due to the complexity of measuring and collecting (e.g. via national household surveys) sovereign data. Therefore, longer reporting deadlines compared to corporate issuers might be appropriate. These time lags might present a challenge for investors that need more up-to-date and more frequent (at least annual) information. In certain cases (for example, sectoral greenhouse gas emissions data), this challenge might be alleviated by using proxy data or means/policy deployment, oriented information. This could be used in combination with source data (for example, production data) that is reported more frequently, ideally on an annual basis. Issuers and investors might be able to use the approximate information in the interim and revise the information as the official information is reported.

If quantitative indicators are not available on an annual basis, then SLB Sovereign issuers are encouraged to at least report qualitative information to investors and explain the reason of a lack of quantitative information and the main factors behind the evolution of each KPI.

4.6 Verification

4.6.1 External verification of the performance against the SPTs is required under the SLBP. How will this affect the legal documentation?

Under the SLBP external verification of each KPI should occur at least once a year and for any date/period relevant for assessing the SPT performance (“trigger event”) that may lead to an adjustment of the bond characteristics.

Therefore, it is expected that reference will need to be made in the legal terms and conditions of the bonds setting out the roles of the parties in confirming whether each SPT has been met. By way of example, in bond documentation, where an issuer or third party makes a determination, it is common to include drafting that the determination, in the absence of error, fraud, negligence, etc. is binding. The precise drafting would need to be addressed as part of the documentation process prior to issuance of the SLB.

It is also likely that parties structuring the transaction will want to include a specific undertaking from the issuer in the legal terms and conditions to make external verification reports publicly available in line with the requirements of the SLBP.

5 Market and Technical Issues

6 Governance and Membership

(…)

7 Other Market and Official Sector Initiatives

(…)

7.6 Are "science-based targets", referred to in the SLBP and in the CTFH, the same as Nationally Determined Contributions (NDCs), as proposed by the parties to the Paris Agreement?

Not necessarily. NDCs[7] represent a country's individual commitments under the Paris Agreement. Science based targets, such as the approach set out by the Science Based Targets Initiative (SBTi)[8], seek to provide guidance to companies and other economic actors on the extent and speed by which they need to reduce their greenhouse gas emissions to meet and/or exceed the objectives of the Paris Agreement. As it stands today, the sum of each countries' NDCs does not meet the 1.5°C or well below 2°C target of the Paris Agreement.

Element 3 of the CTFH recommends, as part of a credible transition proposition, that issuers reference appropriate, sector-specific decarbonisation trajectories in communicating their strategy in this area. We note that an aim to align the business plans with a 1.5°C trajectory will be perceived as most credible to an increasing proportion of market participants. However, reference to NDCs could be made as part of a transition strategy, particularly where issuers are at the beginning of their transition journey.

7.7 How might the EU Taxonomy support Green Bond and Sustainability-Linked Bond issuance?

The EU Taxonomy seeks to identify activities that substantially contribute to the EU's environmental objectives of climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control and/or protection and restoration of biodiversity and ecosystems. The EU Taxonomy includes technical screening criteria (TSCs) that are both qualitative and quantitative, and although there may be challenges both in translating green activities into eligible Green Projects, and in applying the TSCs to projects undertaken outside the EU, it will nevertheless provide a reference point for identifying and reporting on eligible Green Projects. Issuers of Sustainability-Linked Bonds are encouraged to reference and benchmark their sustainability performance against the EU Taxonomy's TSCs, which may also be applied as KPIs or the SPT calibration for such an issuance (e.g. % of revenue aligned with Taxonomy, % of investments that are aligned with the Taxonomy).

[7] https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs.
[8] https://sciencebasedtargets.org/about-us.