

# Sustainability-Linked Bond Principles

Voluntary Process Guidelines

June 2023



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#### Introduction

Sustainability-Linked Bonds (SLBs) aim to further develop the key role that debt markets can play in funding and encouraging issuers that contribute to sustainability (from an Environmental and/or Social and/or Governance (ESG) perspective). For such a role to be played and the market to thrive, integrity is of the utmost importance. The Sustainability-Linked Bond Principles (SLBP) provide guidelines that recommend structuring features, disclosure and reporting. They are intended for use by market participants and are designed to drive the provision of information needed to increase capital allocation to such financial products. The SLBP are applicable to all types of issuers and any type of financial capital market instruments.

Issuance aligned to the SLBP should provide an investment opportunity with transparent sustainability credentials. Sustainability-Linked Bonds incentivise the issuer's achievement of material, quantitative, pre-determined, ambitious, regularly monitored and externally verified sustainability (ESG) objectives through Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs).

The SLBP are collaborative and consultative in nature based on the contributions of [Members and Observers](#) of the [Green Bond Principles](#) (GBP) and the [Social Bond Principles](#) (SBP) (referred to as the Principles), and of the wider community of stakeholders. The Principles are coordinated by the [Executive Committee](#). The SLBP will be updated from time to time in order to reflect the development and growth of the global Sustainability-Linked Bond market.

#### The 2023 Edition of the SLBP

The 2023 edition of the SLBP benefits from the input of the working group coordinated by the Executive Committee with the support of the Secretariat.

This edition of the SLBP includes some adaptations of the five core components of the SLBP to accommodate all types of issuers, including sovereigns<sup>1</sup>.

<sup>1</sup> For the purpose of this document, the term "sovereign issuers" also includes sub-sovereign issuers.





## Sustainability-Linked Bond Definition

Sustainability-Linked Bonds (SLBs) are any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ESG objectives. In that sense, issuers are thereby committing explicitly (including in the bond documentation) to future improvements in sustainability outcome(s) within a predefined timeline. SLBs are a forward-looking performance-based instrument.

Those objectives are (i) measured through predefined Key Performance Indicators (KPIs) and (ii) assessed against predefined Sustainability Performance Targets (SPTs).

The proceeds of SLBs are intended to be used for general purposes, hence the use of proceeds is not a determinant in its categorisation. Regardless, in select cases, issuers may choose to combine the GBP/SBP approach with the SLBP. Thus, please note that SLB are not to be confused with Sustainability Bonds (i.e. Use of Proceeds bonds as currently defined by the Sustainability Bond Guidelines).



## Sustainability-Linked Bond Principles

The Sustainability-Linked Bond Principles are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked Bond market by clarifying the approach for issuance of an SLB.

The SLBP are intended for broad use by the market: they provide issuers with guidance on the key components involved in launching a credible and ambitious SLB; they aid investors by promoting accountability of issuers in their sustainability strategy and availability of information necessary to evaluate their SLB investments; and they assist underwriters by moving the market towards expected approaches to structuring and disclosures that will facilitate credible transactions.

The SLBP recommend a clear process and transparent commitments for issuers, which investors, banks, underwriters, placement agents and others may use to understand the financial and/or structural characteristics of any given SLB. The SLBP emphasise the recommended and necessary transparency, accuracy and integrity of information that will be disclosed and reported by issuers to stakeholders.

The SLBP have five core components:

1. Selection of Key Performance Indicators (KPIs)
2. Calibration of Sustainability Performance Targets (SPTs)
3. Bond characteristics
4. Reporting
5. Verification

The SLBP recommend that issuers publicly communicate their rationale for the selection of their KPI(s) (i.e. relevance, materiality), the motivation for the SPT(s) (i.e. ambition level, consistency with overall strategic planning or sustainable development policies and benchmarking approach), the potential change of bond financial and/or structural characteristics and the trigger events leading to such a change, intended post issuance reporting and independent verification, as well as an overall representation of the issuer's alignment with the SLBP.

For the sake of clarity, a non-exhaustive checklist of recommended or necessary pre and post issuance disclosures is provided in Appendix II.

## 1 Selection of KPIs

The credibility of the Sustainability-Linked Bond market will rest on the selection of one or more KPI(s). It is important to the success of this instrument to avoid the proliferation of KPIs that are not credible. The issuer's sustainability performance is measured using sustainability KPIs that can be external or internal.

First and foremost, the KPIs should be material to the corporate issuer's core sustainability and business strategy and address relevant environmental, social and/or governance challenges of the industry sector and be under management's control. For sovereign issuers, the KPIs should be material to the issuer's core sustainability policies and address relevant environmental, social and/or governance objectives.

The KPIs should be:

- relevant, core and material to the corporate issuer's overall business, (or economic, social and governance policies for sovereign issuers) and of high strategic significance to the issuer's current and/or future operations (or sustainable development policies for sovereign issuers);
- measurable or quantifiable on a consistent methodological basis;
- externally verifiable; and
- able to be benchmarked, i.e. as much as possible using an external reference or definitions to facilitate the assessment of the SPT's level of ambition.

Issuers are encouraged, when possible, to select KPI(s) that they have already included in their previous reports, such as annual reports, sustainability reports, other non-financial reporting disclosures or episodic reports on Nationally Determined Contributions (NDCs), national emissions inventories/progress, Sustainable Development Goals (SDG) reports, national adaptation plans, national biodiversity strategies, etc. to allow investors to evaluate historical performance of the KPIs selected. In situations where the KPIs have not been previously disclosed, issuers should, to the extent possible, provide historical externally verified KPI values covering at least the previous 3 years.

Care should be taken as technological advancements and the regulatory environment change<sup>2</sup> over time.

It is recommended that issuers communicate clearly to investors the rationale and process according to which the KPI(s) have been

selected and how the KPI(s) fit into their sustainability strategy, or, for sovereign issuers, their sustainable development policies.

A clear definition of the KPI(s) should be provided and include the applicable scope or perimeter (e.g. the percentage of the issuer's total emissions to which the target is applicable), as well as the calculation methodology (e.g. clear definition of the denominator of intensity-based KPIs), definition of a baseline, where feasible, science-based or benchmarked against an industry standard/recognised international data (e.g. consider SMART philosophy specific, measurable, attainable, relevant and time-bound).

## 2 Calibration of Sustainability Performance Targets (SPTs)

The process for calibration of one or more SPT(s) per KPI is key to the structuring of SLBs since it will be the expression of the level of ambition the issuer is ready to commit to, and thus considers realistic.

SPTs must be set in good faith and the issuer should disclose strategic information, or for sovereign issuers, strategic national development plans or policies, that may decisively impact the achievement of the SPTs.

The SPTs should be ambitious, i.e.:

- represent a material improvement in the respective KPIs and be beyond a "Business as Usual" trajectory;
- where possible be compared to a benchmark or an external reference;
- be consistent with the issuer's overall strategic sustainability and business strategy in the case of corporate issuers, or sustainable development policies in the case of sovereign issuers; and
- be determined on a predefined timeline, set before (or concurrently with) the issuance of the bond.

The target setting exercise should be based on a combination of benchmarking approaches:

- the issuer's own performance over time for which a minimum of 3 years, where feasible, of measurement track record on the selected KPI(s) is recommended and when possible forward-looking guidance on the KPI;
- the issuers' peers, i.e. the SPT's relative positioning versus its peers' where available (average performance, best-in-class performance) and comparable, or versus current

<sup>2</sup> Reference to, or inspiration from regulatory standards or taxonomies in the choice of relevant KPIs such as for example: the EU Taxonomy of sustainable activities or the China Catalogue, can prove to be useful and relevant. Similarly, reference to goals and objectives set in international agreements such as the Paris Agreement (countries' nationally determined contributions and the 1.5°C or 2°C temperature rise objective) or the 2030 Agenda on Sustainable Development (Sustainable Development Goals) can prove useful.

Issuers should also note the existing and ongoing work on environmental and social impact metrics by the Principles that may help identify relevant KPIs and calculation methodologies. See notably the Illustrative KPIs Registry published on ICMA's website: <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-linked-bond-principles-slbp/>.



industry or sector standards (or, for sovereign issuers, comparable countries); and/or

- reference to the science, i.e. systematic reference to science-based scenarios, or absolute levels (e.g. carbon budgets), or to official country/regional/international targets (Paris Agreement on Climate Change and net zero goals, Sustainable Development Goals (SDGs), Kunming-Montreal Global biodiversity framework, etc.) or to recognised Best-Available-Technologies or other proxies to determine relevant targets across environmental and social themes.

Disclosures on target setting should make clear reference to:

- the timelines for the target achievement, including the target observation date(s)/ period(s), the trigger event(s) and the frequency of SPTs;
- where relevant, the verified baseline or reference point selected for improvement of KPIs as well as the rationale for that baseline or reference point to be used (including date/ period);
- where relevant, in what situations recalculations or pro-forma adjustments of baselines will take place;
- where possible and taking competition or confidentiality considerations into account, how the issuers intend to reach such SPTs, (e.g. by describing their ESG strategy, supporting ESG governance and investments, and their operating strategy, i.e. through highlighting the key levers/type of actions that are expected to drive the performance towards the SPTs as well as their expected respective contribution,

in quantitative terms wherever possible or, for sovereign issuers, describing their sustainable development policies , (tagged) budget/NDC plans); and

- any other key factors beyond the issuer's direct control that may affect the achievement of the SPT(s).

Issuers are encouraged to position this information within the context of the issuer's overarching objectives, strategy, policy or processes relating to ESG.

It is recommended that, in connection with the issuance of a Sustainability-Linked Bond, issuers appoint (an) external review provider(s) to confirm the alignment of their bond with the five core components of the SLBP (such as a Second Party Opinion).

In their pre-issuance Second Party Opinion, external reviewers are encouraged<sup>3</sup> to assess the relevance, robustness and reliability of selected KPIs, the rationale and level of ambition of the proposed SPTs, the relevance and reliability of selected benchmarks and baselines, and the credibility of the strategy and/or policies outlined to achieve them, based on scenario analyses, where relevant. Post issuance, in case of any material change to perimeter/KPI methodology/SPT(s) calibration, issuers are encouraged to ask external reviewers to assess any of these changes.

In cases where no Second Party Opinion is sought, it is recommended that issuers demonstrate or develop the internal organisational expertise to verify their methodologies. Issuers

<sup>3</sup> The recourse to ex-ante Second Party Opinion is especially recommended where benchmarks are absent or lack clear performance thresholds pertinent to the issuer.



are recommended to thoroughly document any such expertise, including the related internal processes and expertise of their staff. This documentation should be communicated to investors.

The SLBP encourage external reviewers to disclose their credentials and relevant expertise and communicate clearly the scope of the review(s) conducted. Voluntary [Guidelines for External Reviews](#), which have been developed by the Principles to promote best practice, can prove to be a useful reference. These voluntary Guidelines are a market-based initiative to provide information and transparency on the external review processes for issuers, underwriters, investors, other stakeholders and external reviewers themselves.

### 3 Bond characteristics

The cornerstone of an SLB is that the bond's financial and/or structural characteristics can vary depending on whether the selected KPI(s) reach (or not) the predefined SPT(s), i.e. the SLB will need to include a financial and/or structural impact involving trigger event(s).

The potential variation of the coupon is the most common example, but it is also possible to consider the variation of other SLB's financial and/or structural characteristics.

It is recommended that the variation of the bond financial and/or structural characteristics be commensurate and meaningful relative to the issuer's original bond financial characteristics.

The KPI(s) definition and SPT(s) (including calculation methodologies) and the potential variation of the SLB's financial and/or structural characteristics are a necessary element of the bond documentation.

Any fallback mechanisms in the case that the SPTs cannot be calculated or observed in a satisfactory manner should be explained. Issuers may also consider including, where needed, language in the bond documentation to take into consideration potential exceptional events (such as significant change in perimeters through material M&A activities for corporate issuers) or extreme events, including drastic changes in the regulatory or technical environment that could substantially impact the calculation of the KPI, the restatement of the SPT, and/or pro-forma adjustments of baselines or KPI scope.

Please note that SLBs may involve information that could be considered market sensitive and that such information, and the handling of such information, should be treated appropriately.

### 4 Reporting

Issuers of SLBs should publish, and keep readily available and easily accessible:

- up-to-date information on the performance of the selected KPI(s), including baselines where relevant;
- a verification assurance report relative to the SPT outlining the performance against the SPTs and the related impact, and timing of such impact, on the bond's financial and/or structural characteristics; and
- any information enabling investors to monitor the level of ambition of the SPTs (e.g. any update in the issuers sustainability strategy or on the related KPI/ESG governance or any update in the sovereign issuer's strategic development plans and/or policies, and more generally any information relevant to the analysis of the KPIs and SPTs).

This reporting should be published regularly, at least annually, and in any case for any date/period relevant for assessing the SPT performance leading to a potential adjustment of the SLB's financial and/or structural characteristics.

If quantitative data is not available every year, sovereign issuers are encouraged to publish a report containing an explanation of the main factors behind the evolution of each KPI.

Since a number of transparency measures are specified throughout the document and for the sake of clarity, a checklist of recommended or necessary pre and post issuance disclosures is provided in Appendix II.

### 5 Verification

Issuers should seek an independent and external verification (for example limited or reasonable assurance) of their performance against each SPT for each KPI, by a qualified external reviewer with relevant expertise<sup>4</sup>, such as an auditor or a sustainability consultant, once a year, and in any case for any date/period relevant for assessing the SPT performance leading to a potential adjustment of the SLB financial and/or structural characteristics, until after the last SPT trigger event of the bond has been reached.

The verification of the performance against the SPTs should be made publicly available.

As opposed to the pre-issuance external review such as a Second Party Opinion, which is recommended, post issuance verification, is a necessary element of the SLBP.

<sup>4</sup> Please see [Voluntary Guidelines for External Reviews](#) developed by the Principles to promote best practice.

## Disclaimer

*The Sustainability-Linked 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 Sustainability-Linked Bonds or any other securities. The Sustainability-Linked Bond Principles do not create any rights in, or liability to, any person, public or private. Issuers adopt and implement the Sustainability-Linked Bond Principles voluntarily and independently, without reliance on or recourse to the Sustainability-Linked Bond Principles and are solely responsible for the decision to issue Sustainability-Linked Bonds. Underwriters of Sustainability-Linked Bonds are not responsible if issuers do not comply with their commitments to Sustainability-Linked Bonds. If there is a conflict between any applicable laws, statutes and regulations and the guidelines set forth in the Sustainability-Linked Bond Principles, the relevant local laws, statutes and regulations shall prevail.*

## Appendix I

### Glossary

**Baseline:** The baseline is a fixed point of reference that is used for comparison to determine the measurement of the performance of the SPT.

**Benchmark:** A benchmark is a reference that can be used to measure or compare performance.

**External Review:** The Green Bond and Social Bond Principles Executive Committee has published Guidelines for External Review and have outlined 4 types of external review (1) Second Party Opinion (2) Verification (3) Certification and (4) Scoring/Rating. The SLBP recommends pre issuance Second Party Opinions but requires Verification as one of its five core components.

**KPI:** Key Performance Indicators are quantifiable metrics used to measure the performance of selected indicators.

**SPT:** Sustainability Performance Targets are measurable improvements in key performance indicators on to which issuers commit to a predefined timeline. SPTs should be ambitious, material and where possible benchmarked and consistent with an issuer's overall sustainability/ESG strategies or sustainable development policies.

**Target Observation Date:** The target observation date refers to the specific date at which the performance of each KPI(s) against each predefined SPT(s) is observed.

**Target Setting:** Target setting refers to the recommended process of establishing credible SPTs as outlined in the SLBP.

**Trigger Event:** The trigger event is the result of the observation whether a KPI has achieved or not a given predefined SPT that may cause a change in the financial and/or structural characteristics of the bond.

**Verification:** A verification or attestation, typically in the form of limited or reasonable assurance, is performed by an independent third party with relevant expertise and credentials.



## Appendix II

### SLB Disclosure Data Checklist

The below table is set up as a guiding, non-exhaustive checklist of elements that are recommended or required to be disclosed in the context of the issuance of an SLB. The objective is to provide guidance for issuers of SLBs to align their disclosure around comparable language and data points to ensure the appropriate degree of transparency and harmonisation as sought by the investors and other players in the marketplace.

Disclosures may take place in the bond documentation and where appropriate in a standalone document such as a framework, investor presentation, external review or on issuers' websites or annual sustainability or annual reports.

Issuers of SLBs should make available information about the KPIs, the SPTs, trigger events for change of bond characteristics, intended post issuance reporting and external review format, and issuers' representation of the alignment with the SLBP.

Please note: SLBs may involve information that could be considered market sensitive and that handling of such information, should be treated appropriately.



## Appendix II - SLB Disclosure Data Checklist

		Type of information	Location	Recommended vs Necessary
<b>Pre-issuance</b>	<b>General</b>	<ul style="list-style-type: none"> <li>Rationale for SLB issuance &amp; consistency with issuer's overall sustainability and business strategy or sustainable development policies</li> <li>Alignment with SLBP's five core components</li> <li>External review types, publication dates, reviewer name</li> </ul>		
	<b>Selection of KPIs</b>	<ul style="list-style-type: none"> <li>Description and definition of KPI(s)</li> <li>Rationale behind the selection of KPI(s) (i.e. relevance of issuer's strategy, materiality, national sustainability strategy such as NDCs)</li> <li>Historical externally verified KPI values covering at least the previous [3] years, where feasible</li> <li>Where relevant, the verified baseline or reference point selected for improvement of KPIs as well as the rationale for that baseline or reference point to be used (including date/period)</li> </ul>		
	<b>Calibration of SPTs</b>	<ul style="list-style-type: none"> <li>Description and definition of SPT(s)</li> <li>Motivation for the outlined SPTs (i.e. ambition level, benchmarking approaches and consistency with overall strategic planning or national strategy and sustainable development policies such as NDCs)</li> <li>The timelines for the target achievement, including the target observation date(s)/period(s), the trigger event(s) and the frequency of SPTs</li> <li>Strategic information that would decisively impact the achievement of the SPTs</li> <li>Where feasible, science-based or benchmarked against an industry standard or peer countries/regions (e.g. consider SMART philosophy specific, measurable, attainable, relevant and time-bound)</li> <li>The means for achieving the target(s), where possible, and taking competition and confidentiality considerations into account: i.e. how the issuers intend to reach such SPTs, e.g. by describing their [national] ESG strategy and supporting ESG governance and investments, and their operating strategy, i.e. through highlighting the key levers/ type of actions that are expected to drive the performance towards the SPTs as well as their expected respective contribution, in quantitative terms wherever possible, the <a href="#">UNFCCC's reporting</a> guidelines for Non-Annex I Parties, which require Biennial Update Reports ('BURs') of national GHG inventories</li> <li>Key other factors beyond the issuer's direct control that may affect the achievement of the target(s)</li> </ul>	Pre-issuance documents (framework, investor presentation, external review, website)	Recommended
	<b>Bond characteristics</b>	<ul style="list-style-type: none"> <li>Definition of KPI(s) and SPT(s) (including calculation methodologies)</li> <li>Detailed description of the potential variation of the SLB financial and/or structural characteristics of the bond</li> <li>If applicable, explanation of the considered back-up mechanisms in case the SPTs cannot be calculated or observed, or not in a satisfactory manner</li> <li>If applicable, language to take into consideration potential extreme/exceptional events (such as significant change in perimeters through material M&amp;A activities or drastic changes in regulatory environment or extreme events) that could substantially impact the calculation of the KPI, the restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope</li> </ul>	Bond Documentation (e.g. by means of prospectus, prospectus supplement, offering circular, offering memorandum, etc.)	Necessary
	<b>Reporting commitments</b>	<ul style="list-style-type: none"> <li>Location &amp; frequency of reporting</li> <li>Intended scope &amp; granularity of reporting</li> <li>Commitment &amp; disclosure of post-issuance external review (verification/assurance report)</li> </ul>		
	<b>Second Party Opinion</b>	<ul style="list-style-type: none"> <li>Publication of any pre-issuance external review, such as a second party opinion, or if relevant a verification of baselines.</li> </ul>	The external review document	Recommended

## Appendix II - SLB Disclosure Data Checklist

		Type of information	Location	Recommended vs Necessary
<b>Post-issuance</b>	<b>General</b>	<ul style="list-style-type: none"> <li>• Reports and ex-post external review publication dates</li> <li>• Identification of the bonds: ISIN, amounts, currency, maturity dates and relative KPI(s) &amp; SPT(s)</li> <li>• Scope of reporting (bond-by-bond, bond programme)</li> <li>• Adherence to specific standards or regulations</li> </ul>	Post-issuance documents (for example, annual report, sustainability reports, website, NDC updates, standalone SLB reports, etc.)	Recommended
	<b>Reporting<sup>5</sup></b>	<p>Regular &amp; easily accessible disclosure, annually, and in any case for any [date/period] relevant for assessing SPT performance leading to a potential adjustment of SLB financial and/or structural characteristic(s) of the bond:</p> <ul style="list-style-type: none"> <li>• up-to-date information on the performance of the selected KPI(s), including baselines where relevant and</li> <li>• any information enabling investors to monitor the level of ambition of the SPTs (e.g. any update in the issuer's sustainability strategy or on the related KPI/ESG governance, or in the national strategy and sustainable development policies and more generally any information relevant to the analysis of the KPIs and SPTs)</li> </ul> <p>When feasible and possible:</p> <ul style="list-style-type: none"> <li>• Qualitative or quantitative explanation of the contribution of the main factors, including M&amp;A activities, behind the evolution of the performance/KPI on an annual basis</li> <li>• Illustration of the positive sustainability impacts of the performance improvement</li> <li>• Any re-assessments of KPIs and/or restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope</li> </ul>		
	<b>Verification</b>	<ul style="list-style-type: none"> <li>• Verification/Assurance report: Reporting relating to the verified SPTs should be made publicly available, outlining the performance against the SPTs and the related impact, and timing of such impact, on the bond financial and/or structural characteristics</li> </ul>		Necessary

<sup>5</sup> This check list is not exhaustive and does not preclude any mandatory reporting obligation required by laws, regulations, or market rules, notably in case of change of bonds' characteristics (e.g. through clearing house, CSD, Principal Paying Agent, etc.).



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