



Green, Social and Sustainability (linked) Bonds

The role of a verifier/certifier





Table of Contents

Foreword by the CEO of the Luxembourg Stock Exchange	3
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1. Definitions	4
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2. A glance at the market	10
---------------------------	----

3. Labeling principles and standards	16
--------------------------------------	----

4. The role of a verifier/certifier	22
-------------------------------------	----

5. Contacts	24
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Foreword

The COVID-19 pandemic accelerated the focus on sustainability and sustainable finance is gaining ground. According to some estimates, new sustainable debt issuance across the world almost doubled in 2020 compared to new issuance in 2019. The Luxembourg Green Exchange (LGX) saw record levels of new sustainable bonds in 2020, and reached the 1,000 sustainable bonds mark in May 2021, within 5 years of launch.

Sustainable debt instruments have raised financing for numerous sustainable development projects in multiple countries over the past years and are crucial in the transition to a low-carbon and more inclusive economy. Since the pandemic hit, the social dimension has been brought to the fore, with a steep uptick in social bond issuances as a result. Given the new sense of urgency in addressing climate change and societal issues, the strong growth in green, social, sustainability and sustainability-linked bonds is likely to continue.

With the evolving European initiatives and regulatory framework on sustainable finance, including the upcoming EU Green Bond Standard (EU GBS), Europe is in the driving seat of sustainable finance worldwide. Other important drivers behind the growth of sustainable debt instruments are increasing awareness and education, changes in investors' behaviour, and last but not least, access to more reliable, comparable, and harmonised sustainability data.

Leading international standards for green, social, sustainability and sustainability-linked bonds, such as those provided by the International Capital Market Association, recommend that issuers of such bonds undergo an external review of their bond framework and their allocation report. The draft EU GBS proposes to make the pre- and post-issuance external review mandatory, and furthermore introduces the idea of a market-based registration scheme for external verifiers. This development highlights the increasingly important role of the external review in the sustainable debt issuance and reporting processes, to reduce the risk of greenwashing and make sure that all issuers deliver on their commitments.

If we are to reach the global objectives defined in the United Nations Sustainable Development Goals and the Paris Agreement, we need to transform our financial system, mobilise massive amount of capital and reorient these capital flows towards investments with a positive social or environmental impact. As we have just entered the “make or break decade for climate action”, as stated by European Commission President Ursula von der Leyen, we need to make finance part of the solution to our global challenges and contribute to making finance sustainable by default.

Julie Becker,
CEO of the Luxembourg Stock Exchange

1

Definitions

Green Bonds

Although for financial market participants, the definition of a bond might be clear and widely understood, can we say the same when it comes to Green Bonds? Are Green Bonds the same as Climate Bonds or Climate Awareness Bonds? Let's try to clear it all up:

The International Capital Market Association ("ICMA") defines Green Bonds as any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance projects with clear environmental benefits.¹

The Climate Bonds Initiative ("CBI") refers to Climate Bonds as themed asset-backed or ring-fenced bonds issued to raise finance for climate change mitigation or adaptation related projects or programmes.²

The World Bank defines Green Bonds as debt securities that are issued to raise capital specifically to support climate related or environmental projects.³

The European Investment Bank ("EIB") names their bonds issued to finance or re-finance projects with environmental sustainability objectives as Climate Awareness Bonds.⁴

Finally, the **European Commission** ("EC"), through the appointed **Technical Expert Group** ("TEG") on sustainable finance, has defined **EU Green Bonds** ("EU GBS") as any type of listed or unlisted bond or capital market debt instrument whose proceeds shall be exclusively used to finance or refinance in part or in full new and/or existing green projects meeting environmentally objectives as defined in the EU Taxonomy.⁵

While different definitions exist, a common aspect embedded into these, is how the use of proceeds of all the above defined bonds are to be allocated, i.e. towards projects that bring environmental and climate benefits.

Going a step further into definitions of Green Bonds, there are four types of Green Bonds being used nowadays in the market:

Standard Green Use of Proceeds Bond: a standard recourse-to-the-issuer debt obligation.

Green Revenue Bond: a non-recourse-to-the issuer debt obligation 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 green project(s).

Green Project Bond: a project bond for a single or multiple green project(s) for which the investor has direct exposure to the risk of the project(s) with or without potential recourse to the issuer.

Green Securitised Bond and Covered Bond: a bond collateralised by one or more specific green project(s), including but not limited to Covered Bonds, Asset-Backed Securities ("ABS"), Mortgage-Backed Security ("MBS"), and other structures. The first source of repayment is generally the cash flows of the assets.

1. <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Guidance-Handbook-March-2020-120320.pdf>
2. <https://www.climatebonds.net/standard/about/history>
3. <http://documents.worldbank.org/curated/en/400251468187810398/pdf/99662-REVISED-WB-Green-Bond-Box393208B-PUBLIC.pdf>
4. https://www.eib.org/en/investor_relations/cab/index.htm
5. https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-green-bond-standard-usability-guide_en.pdf





Case study 1

Issuer	Volvo
Category	Standard Green Use of Proceeds Bond
Standards used	ICMA - Green Bond Principles
Green listing venue	Luxembourg Stock Exchange and displayed on LGX
Market	Euro Multilateral Trading Facility ("Euro MTF")
Amount	EUR 500 mio issued (Programme amount EUR 3 bn)
Use of proceeds	To finance or refinance, in whole or in part, new or existing, projects, assets or activities within the Green Bond Principles category Clean transportation (e.g. Research and Development ("R&D") and the production of zero emission battery electric vehicles)

Case study 2

Issuer	Nord/LB Luxembourg S.A. Covered Bond Bank
Category	Green Securitised Bond and covered bonds
Standards used	ICMA - Green Bond Principles
Green listing venue	Luxembourg Stock Exchange and displayed on LGX
Market	Euro Multilateral Trading Facility ("Euro MTF")
Amount	EUR 10 bn Programme for the Issuance of Debt Instruments
Use of proceeds	Exclusively to finance and/or refinance projects within the renewable energy sector. Eligible Assets are renewable energy projects in EU, EEA, OECD and countries with a high quality rating by recognised rating agencies of the following two categories: (i) Financing of the purchase, design, construction, development and/or installation of the generation of renewable energy from the following renewable energy sources: On- and offshore wind power; Solar power; and (ii) Financing for the connection, transmission, transformation and storage of renewable energy.



Social and Sustainability Bonds

The basic idea around Green Bonds is being applied to other areas and has set a blueprint for the launch of Social Bonds, Sustainability Bonds, Blue Bonds and other Thematic Bonds that raise financing dedicated to a specific social development purpose, might it be a social project, a sea protection or yet another type of sustainability-related project.

Focusing on the macro-categories of bonds that are being issued in the market:

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 and which are aligned with the four core components of the Social Bond Principles (“SBP”). Different types of Social Bonds exist in the market. Similarly to Green Bonds, Social Bonds can be classified as follows:

- **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 and Covered 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. This type of bond covers, for example, covered bonds backed by social housing, hospitals, schools.⁶

Sustainability Bonds are bonds where the proceeds will be exclusively applied to finance or re-finance a combination of both green and social projects. Sustainability Bonds are aligned with the four core components of both the Green Bond Principles (“GBP”) and SBP with the former being especially relevant to underlying green projects and the latter to underlying social projects.⁷



6. <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf>

7. <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

Case study 3

Issuer	Adidas
Category	Sustainability Bonds
Standards used	ICMA - Green Bond Principles, ICMA, Social Bond Principles ICMA, Sustainability Bond Guidelines
Green listing venue	Luxembourg Stock Exchange and displayed on LGX
Market	Bourse de Luxembourg (BdL Market)
Amount	EUR 500 mio standalone issuance
Use of proceeds	To finance or re-finance, in whole or in part, Eligible Sustainable Projects that meet the eligibility criteria defined in the sustainability bond framework of adidas Group (Investments or expenditures in: more sustainable materials, improvements of the operations by establishing more sustainable processes, on a global and local level to actively support and positively impact communities)

Case study 4

Issuer	NWB Bank
Category	Standard Social Use of Proceeds Bond
Standards used	ICMA - Social Bond Principles
Green listing venue	Luxembourg Stock Exchange and displayed on LGX
Market	Bourse de Luxembourg (BdL Market)
Amount	EUR 60 bn Debt Issuance Programme
Use of proceeds	The net proceeds from the issue of certain Notes, which will be designated as socially responsible investment ("SRI") bonds, will only be used to finance debt investments with a socially responsible purpose

The “new comers” Sustainability-Linked Bonds

Sustainability-Linked Bonds (“SLBs”) are any type of bond instrument for which the financial and/or structural characteristics (typically their interest coupon) 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 Sustainability-Linked Bond Principles (“SLBP”).



Case study 5

Issuer	Chanel
Category	Sustainability-Linked Bonds
Standards used	ICMA - Sustainability-Linked Bond Principles
Green listing venue	Luxembourg Stock Exchange and displayed on LGX
Market	Bourse de Luxembourg (BdL Market)
Amount	EUR 600 mio standalone issuance
Sustainability performance targets (SPTs)	CHANEL aims to: <ul style="list-style-type: none"> – transition to 100% renewable electricity in its own operations by 2025; – halve carbon emissions (CO2) from its own operations compared with the base year 2018 by 2030
Bond characteristics	If SPTs are not met, CHANEL shall pay in respect of each single Note: <ul style="list-style-type: none"> – additional EUR 500 paid for each 2026 Notes at maturity (linked to CO2 emissions); – additional EUR 750 paid for each 2031 Notes at maturity (linked to renewable energy transition)

Case study 6

Issuer	Novartis
Category	Sustainability-Linked Bonds
Standards used	ICMA - Sustainability-Linked Bond Principles
Market	SIX Swiss Exchange
Amount	EUR 1.85 bn
Sustainability performance targets (SPTs)	By 2025, Novartis aims to: <ul style="list-style-type: none"> – increase the number of patients reached through its Strategic Innovative Therapies (SIT) to 1.6 mio as compared with the base year 2019, which is equivalent to a 200% increase. – increase the number of patients reached through its Flagship Programs (FP) to 22.6 mio as compared with the base year 2019, which is equivalent to a 50% increase.
Bond characteristics	If one or both of the SPTs are not met, Novartis shall: <ul style="list-style-type: none"> – increase the associated coupon rate by 0.25% commencing with the first interest payment date after 31 December 2025.

2

A glance at the market

Since the issuance of the first Green Bonds by the EIB in 2007, swiftly followed by the ones issued by the World Bank in 2008, the market has grown, every year, at an incredible speed. Below are a few highlights:

A new global record:

USD 269.5bn
In 2020

60%

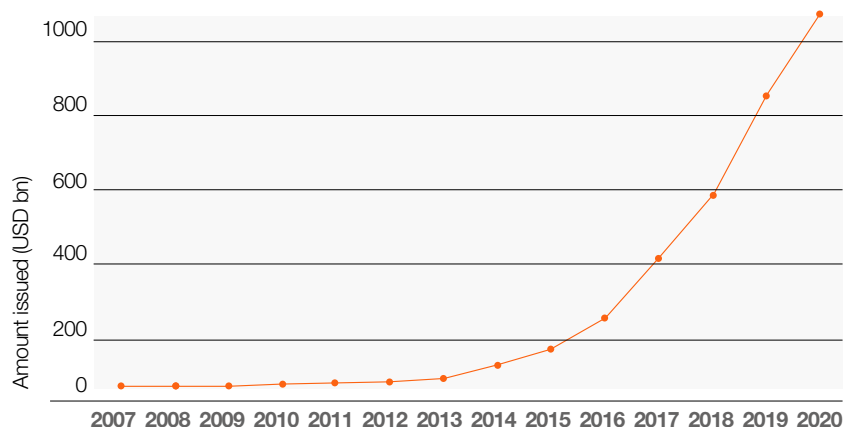
average annual growth
since 2015

USD 1tn

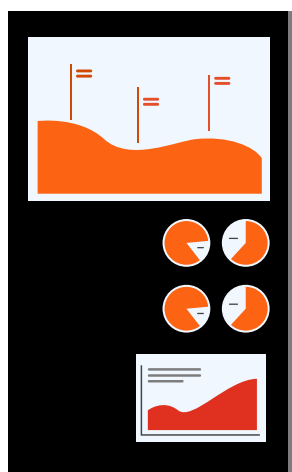
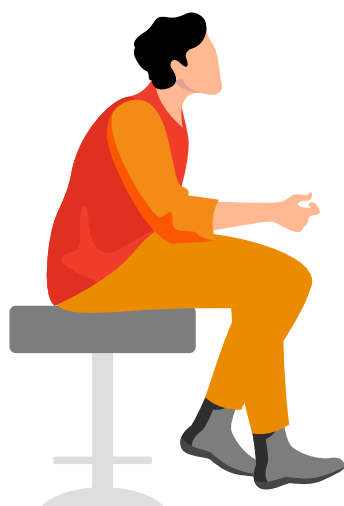
Cumulative Green Bonds issuance
reached in December 2020

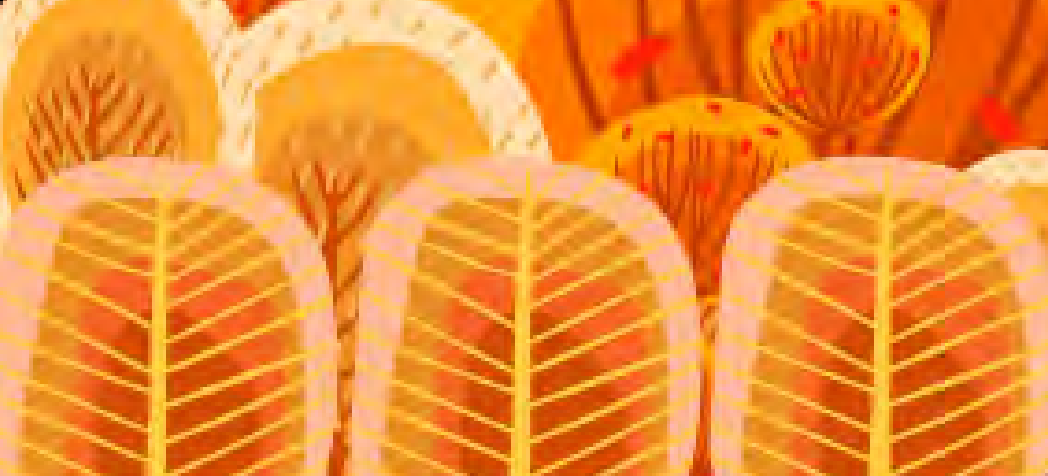
The 2020 figure is the highest since market inception and maintains the trend of nine consecutive years of increased Green Bond market growth.

The \$1 trillion: cumulative progression



Source: <https://www.climatebonds.net/>



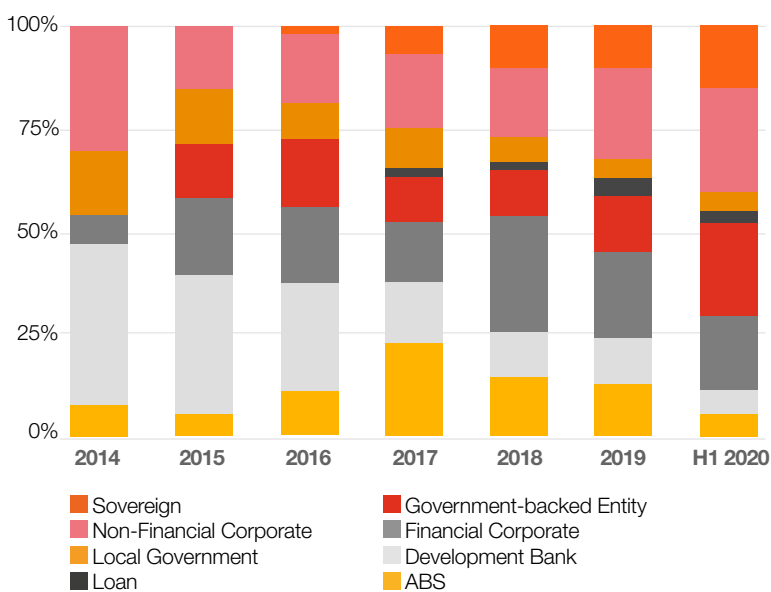


Multilateral Development Banks (“MDBs”)

initially played a major role and were the main actors in the Green Bond market. However, a shift happened in 2018 and 2019, whereby financial and non-financial corporates were the issuers who had the biggest share of the issuance volume. In 2020, also due to the COVID-19 pandemic, public sector issuers increased their share in the Green Bond market.

The Luxembourg Stock Exchange (“LuxSE”) remained the most popular Green Bond listing venue through 2020.

Public sector issuers increase share



Source: CBI Sustainable Debt global state of the market H1 2020





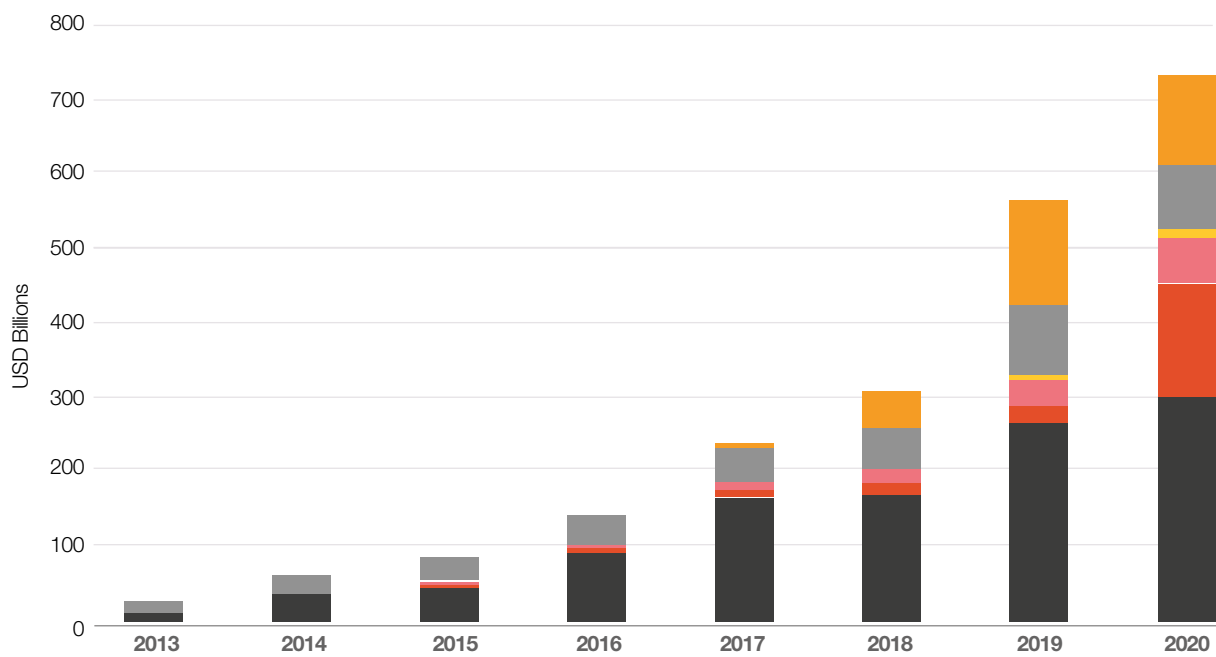
Although the sustainable finance market has been dominated by Green Bonds, the share of other themes (i.e. Social, Sustainability and in 2020 Pandemic-linked) has grown significantly in 2020, both in terms of amount issued and number of issuers. The sustainable finance market once again achieved a record volume of debt issued in 2020 with a total of USD 730bn.

In a year marked by the COVID outbreak, the sustainable finance market has shown great adaptability (especially via the use of proceeds products) in a sense that it could be leveraged to fight the pandemic challenges. Indeed, in 2020, Social Bonds were more than eight times higher than 2019

primarily as a result of issuances aimed at combating the effects of COVID-19; and the Sustainability Bond market also contributed to this trend primarily because of issuances of government agencies aimed at supporting the economic recovery following the pandemic.

2020 has also witnessed a surge in Sustainability-Linked Bonds issuance, with total issuance of USD 10.6bn in 2020, which became a high-growth product type in the sustainable debt market, also considering that 22 of the 27 issuances in 2020 came in September or later in the year.

Sustainable debt market growth by product type



Source: Bloomberg New Energy Finance, as of 31 December 2020

- Loan – Sustainability-Linked
- Loan – Green
- Bond – Sustainability-Linked
- Bond – Sustainability
- Bond – Social
- Bond – Green



LUXEMBOURG AT THE FOREFRONT OF SUSTAINABLE FINANCE

Luxembourg has always been at the forefront of sustainable finance and has played a pivotal role when it comes to Green Bonds and lately also to social, sustainability and sustainability-linked bonds.

Luxembourg Finance Labelling Agency (“LuxFLAG”)

In 2006, an independent and international non-profit association was created in Luxembourg by seven private and public founding partners, Charter members, to support sustainable finance (the Luxembourg Government, The Association of the Luxembourg Fund Industry (“ALFI”), the Luxembourg Bankers Association (“ABBL”), *Appui au Développement Autonome* (“ADA”), the European Investment Bank, Luxembourg for Finance and the Luxembourg Stock Exchange).

LuxFLAG aims to promote the raising of capital for sustainable investments by awarding a recognisable label to eligible investment vehicles. Its objective is to reassure investors that the labelled investment vehicles invest in the responsible investment sector. An applicant may be domiciled in any jurisdiction that is subject to a level of national supervision equivalent to that available in EU countries.

Luxembourg Green Exchange (“LGX”)

Launched in 2016, the Luxembourg Green Exchange is the world’s first and leading platform⁸ dedicated exclusively to sustainable financial instruments.

By displaying their securities on LGX, issuers generate awareness about their projects and investment portfolios and the investors benefit from easy access to labelled sustainable financial instruments, improved comparability of sustainable financial instruments and high level of transparency.⁹

8. <https://www.bourse.lu/green>

9. <https://www.bourse.lu/documents/brochure-LGX-EN.pdf>



LGX in numbers

The Luxembourg Stock Exchange, home to LGX, is the world’s leading exchange for sustainable securities with a leading global market share of listed sustainable bonds.

1000+

sustainable bonds

denominated in 37 currencies

EUR 525+

billion

listed on LuxSE and displayed on LGX

180+

issuers

from 41 countries



As the world's leading platform for sustainable securities, LGX has an international footprint with 186 issuers from 41 countries, issuing securities in a total of 37 currencies. As of 31 May 2021, LGX displays 1,011 green, social, sustainability and sustainability-linked bonds totalling EUR 525 billion.

In 2021, LuxSE won Environmental Finance's exchange of the year award for the fifth consecutive year.¹¹ Also, LuxSE won the 2020 UN Global Climate Action Award for LGX.¹² In 2019, Luxembourg Stock Exchange won the Green Bond Pioneer Award from CBI¹³ and in 2021, LuxSE was praised for contributing to the financial centre in Luxembourg and won the Lux Finance Awards 2021, for best green and sustainable initiative.¹⁴

Green Bond Label - Luxembourg as pioneer country

The Green Bond Label, launched in 2017, is the first of its kind worldwide.¹⁵

LuxFLAG launched a new label for Green Bonds which will be granted, after a rigorous assessment, to eligible instruments that finance green projects. LuxFLAG sets the bar appropriately to provide the market with the necessary accountability and confidence for green investments in the debt capital markets.

The first legal framework for green covered bonds

Luxembourg is the first country in the world to legislate green covered bonds as in June 2018, renewable energy covered bonds were introduced to the Luxembourg law on the financial sector (the "Law"), adding to existing classes of covered bonds, namely public sector covered bonds, real estate covered bonds, movable assets covered bonds and mutual covered bonds.¹⁶

The first European country to launch a Sustainability Bond Framework

In September 2020, Luxembourg became the first European country to launch a Sustainability Bond Framework, which meets the ICMA Green, Social and Sustainability Bonds principles, the standard in the field. Living up to its reputation as a first-mover, Luxembourg has also incorporated eligibility criteria that are already fully in line with the recommendations of the final report of the TEG on the Taxonomy of the European Union. In the same spirit, the framework has been designed to comply with the draft EU GBS.

Proceeds from the bonds issued through this framework can only be used to finance or refinance eligible expenditure. More specifically, this covers expenditure in the following green and social categories: construction of green buildings, energy transition, development of low-carbon transport, environmental protection, water and wastewater management, climate financing and R&D, access to essential services - health, education and social inclusion, affordable housing and job creation. In this way, the framework will provide an objective and transparent tool to determine the sustainability of the country's public investments, and act as a catalyst to achieve its commitments under the Paris Climate Convention and the 17 UN Sustainable Development Goals ("SDG").

10. <https://unfccc.int/climate-action/momentum-for-change/financing-for-climate-friendly-investment/luxembourg-green-exchange>

11. <https://www.bourse.lu/pr-luxse-exchange-of-the-year>

12. <http://www.corporatenews.lu/en/archives-shortcut/archives/article/2020/10/luxse-wins-2020-un-global-climate-action-award-for-lgx?author=Bourse+de+Luxembourg>

13. <https://www.bourse.lu/pr-luxse-cbi-award-2019>

14. <https://www.bourse.lu/news>

15. <https://www.luxflag.org/labels/green-bond/about-label.html>

16. https://www.bourse.lu/documents/brochure-LGX-green_covered_bonds.pdf

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Labeling principles and standards¹⁷

Green Bonds

Since the early stage of the issuance era of Green Bonds, and even more so as its market gained traction, investor concerns about the credibility of those bonds being really green have also been growing.

Therefore, compared to a regular bond, a Green Bond requires the issuer's commitment not only to raise proceeds to support defined green projects but also to track their results and to communicate this information to investors. These aspects will have to be included and documented in a Green Bond framework. Issuers may

follow their own Green Bond framework based on national or regional Green Bond standards/guidelines or other standards that have arisen over time and became the market practice reference when putting in place a Green Bond framework.

There exist different internationally recognised Green Bond standards that may be used by issuers (depending upon the issuance market) in preparing their own Green Bond framework; a non-extensive list can be found below:

Frameworks	Main components
Green Bond Principles, issued in 2014 (and updated in June 2018), by ICMA	<ol style="list-style-type: none"> 1. Use of Proceeds¹⁸ 2. Process for Project Evaluation and Selection¹⁹ 3. Management of Proceeds²⁰ 4. Reporting²¹
Climate Bond Standard, issued in 2010 (and last updated in December 2019), by CBI	<ol style="list-style-type: none"> 1. Use of proceeds 2. Selection of projects & assets²² 3. Management of proceeds 4. Reporting 5. External review²³
Green Bond Endorsed Project Catalogue, issued in 2015 (and as subsequently amended), by People's Bank of China ("PBOC")	<p>The Catalogue takes on projects with marked environmental benefits that are categorised into 6 categories.</p> <p>Given the fact that the indirect green benefits of equipment/product manufacturing will be achieved through project construction and operation, and that the evaluation programme is complex and imprecise, it is tentatively agreed upon that in the initial stage of green market development, the environmental benefits would be measured mainly from the construction and operation.</p>
EU Green Bond standard, draft issued in 2020 (and expected to be endorsed in 2021)	<ol style="list-style-type: none"> 1. The alignment of the use-of-proceeds with the EU Taxonomy 2. The content of a Green Bond framework to be produced by the issuer, including: <ol style="list-style-type: none"> 1. Use of Proceeds 2. Process for Project Evaluation and Selection 3. Management of Proceeds 4. Reporting

17. The use of the standards enlisted herein remain voluntary.

18. The utilisation of the proceeds of Bonds for green projects should be appropriately described. Where proceeds are used for refinancing, it is recommended that issuers provide an estimate of the share of financing vs. re-financing.

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

20. The GBP 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 Green Bonds proceeds.

21. Issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and on a timely basis in case of material developments.

22. The Issuer shall establish, document and maintain a decision-making process which it uses to determine the eligibility of the Nominated Projects & Assets which would include, but not limited to, a statement on the climate-related objectives of the Bond.

Social Bonds

It is understood that certain social projects may also have environmental co-benefits, and that the classification of a use of proceeds bond as Social Bonds should be determined by the issuer based on its primary objectives for the underlying projects.

The issuers interested in preparing their own Social Bond framework can use the Social Bond Principles, issued in 2017 and updated in June 2020, by ICMA, which is designed to look like GBP and it differs only by the selection of projects to be used (i.e. social versus green):

Framework	Main components
Social Bond Principles, issued in 2017 and updated in June 2020, by ICMA	<ol style="list-style-type: none">1. Use of Proceeds2. Process for Project Evaluation and Selection3. Management of Proceeds4. Reporting

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 credible Social Bonds; 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.

Sustainability Bonds

Bonds that intentionally mix green and social projects are referred to as Sustainability Bonds. Currently, there are no standards as such in respect of the Sustainability Bonds. However, the Sustainability Bond Guidelines have been published by ICMA for the bonds aligned to both the GBP and the SBP. The goal of this document is to promote the integrity of the Sustainability Bond market and to ensure that issuers are better able to anticipate and fulfil the expectations of investors. It aims to facilitate the availability of information for the review and evaluation of expected or realised positive green and social impacts by investors. It also assists underwriters by promoting the expected disclosure of information and methodology.

Sustainability-Linked Bonds

SLBs aim to further develop the key role that debt markets can play in funding and encouraging companies that contribute to sustainability (from an environmental and/or social and/or governance perspective).

The SLBP are collaborative and consultative in nature based on the contributions of members and observers of the Green Bond and Social Bond Principles.

The issuers interested in preparing their own Sustainability-Linked Bond framework can use:

Framework	Main components
Sustainability-Linked Bond Principles, issued in June 2020, by ICMA	<ol style="list-style-type: none">1. Selection of Key Performance Indicators²⁴ (KPIs)2. Calibration of Sustainability Performance Targets²⁵ (SPTs)3. Bond characteristics²⁶4. Reporting²⁷5. Verification²⁸

Please note that SLBs are not to be confused with Sustainability Bonds (i.e. Use-of-Proceeds bonds as currently defined by the Sustainability Bond Guidelines).

23. Mandatory verification prior to issuance and disclosure of verifier's report prior to or at issuance. Mandatory verification at least once after issuance, within two years of issuance. Mandatory disclosure of verifier's report.

24. The KPIs should be material to the 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.

25. SPTs must be set in good faith and the issuer should disclose strategic information that may decisively impact the achievement of the SPTs.

26. The cornerstone of a 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).

27. Issuers of SLBs should publish, and keep readily available and easily accessible: up-to-date information on the performance of the selected KPI(s), a verification assurance report relative to the SPT outlining the performance against the SPTs and the related impact and any information enabling investors to monitor the level of ambition of the SPTs.

28. Issuers should seek independent and external verification of their performance level against each SPT for each KPI by a qualified external reviewer with relevant expertise, at least 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.

Green Bonds

All these standards have one peculiarity in common, being voluntary. A comparison touching upon a few specific topics can be found below^{29 30}:

Specific topic	Reference of alignment with standard/framework in legal documentation	Project categories	Disclosure of proportion of proceeds used for refinancing	Impact monitoring and reporting	
ICMA Green Bond Principles	Recommended	Guidance on high-level categories ³¹	Recommended	Recommended	
CBI Climate Bonds Standard	Required	Linked to Sector Eligibility Criteria ³⁵	Required	Addressed in Climate Bonds Standard Sector Eligibility Criteria	
PBOC Green Catalogue	Not required	Detailed green catalogue	Recommended	Recommended	
Proposed EU Green Bond Standard ^{36 37}	Required Alignment with the EU Taxonomy, including four requirements: (1) substantial contribution to environmental objectives, (2) do-no-significant harm, (3) minimum social safeguards and (4) technical screening criteria. (For details, see Annex 1 of the TEG June 2019 Report.) ³⁸	Compliance with the EU Taxonomy, Green Bond framework required (For a template, see Annex 2 of the TEG June 2019 Report.) ³⁸	Required (For a reporting template, see Annex 3 of the TEG June 2019 Report.) ³⁸	Required (For a reporting template, see Annex 3 of the TEG June 2019 Report.) ³⁸	

29. Source: https://www.bourse.lu/sustainability_standards_and_labels

30. This table is of a non-exhaustive informative nature, it will be updated on a regular basis.

31. The eligible Green Project categories include, but are not limited to: renewable energy, energy efficiency, pollution prevention and control, environmentally sustainable management of living natural resources and land use, terrestrial and aquatic biodiversity conservation, clean transportation, sustainable water and wastewater management, climate change adaptation, eco-efficient and/or circular economy adapted products, production technologies and processes and green buildings.

32. An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or environmental criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer.

33. An issuer can have their Green Bonds or associated Green Bond framework certified against a recognised external green standard or label.

34. An issuer can have their Green Bonds, associated Green Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology.

	External review requirements			Publication of external review	Accreditation of external reviewers
	Pre-issuance	Post-issuance			
	Recommended In connection with the issuance of Green Bonds or a programme, issuers appoint (an) external review provider(s) to confirm the alignment of their bond or bond programme with the four core components of the GBP.	Use of proceeds The review can take the form of Verification ³² , certification ³³ and Green Bond rating ³⁴ . So long as the Green Bonds are outstanding, the balance of the tracked net proceeds should be periodically adjusted to match allocations to eligible green projects made during that period. The GBP recommends 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 Green Bonds proceeds.	Impact Reporting Provides voluntary guidelines for impact reporting aiming at a harmonised framework for impact reporting, which the issuers can adapt to their own circumstances.	Recommended	Not addressed in GBP.
	Required Mandatory verification prior to issuance and disclosure of verifier’s report prior to or at issuance.	Required Mandatory verification at least once after issuance, within two years of issuance. Mandatory disclosure of verifier’s report.		Recommended	Have a dedicated “Approved verifier” list.
	Not mentioned	Not mentioned	Not mentioned	Recommended	Required
	Required Mandatory verification by a registered verifier: before or at the time of issuance, through an initial verification, the alignment (a) of their Green Projects with the EU Taxonomy within the parameters set out by the EU-GBS and (b) of their Green Bond framework.	Required Mandatory verification by a registered verifier: verification of the final allocation report by an accredited verifier to confirm conformity with the EU-GBS.	Recommended Verification of the Impact Reporting is not mandatory, however, issuers are encouraged to have their Impact reporting reviewed by an independent third party.	Required	A centralised scheme of accredited verifiers, operated by ESMA. Voluntary interim registration scheme for an estimated transition period of up to 3 years.

35. <https://www.climatebonds.net/standard/available>

36. The European Commission is assessing a possible legislative initiative on the proposed EU Green Bond Standard.

37. EU Technical Expert Group on Sustainable Finance, Report on EU Green Bond Standard, June 2019, available here. Usability guide for the EU Green Bond Standard, available here: https://ec.europa.eu/info/files/200309-sustainable-finance-teg-green-bond-standard-usability-guide_en

38. https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-green-bond-standard_en.pdf

Social Bonds

Specific topic	Reference of alignment with standard/ framework in legal documentation	Project categories	Disclosure of proportion of proceeds used for refinancing	Impact monitoring and reporting	
ICMA Social Bond Principles	Recommended	Guidance on high-level categories ³⁹	Recommended	Recommended	

Sustainability-Linked Bonds

Specific topic	Reference of alignment with standard/ framework in legal documentation	Selection of KPIs	Calibration of SPTs	Impact monitoring and reporting	
ICMA Sustainability-Linked Bond Principles	Recommended	<p>N/A</p> <p>Instead of projects, under SLBP, the credibility of the Sustainability-Linked Bond market will rest on the selection of one or more KPI(s).</p> <p>The issuer's sustainability performance is measured using sustainability KPIs that can be external or internal.</p>	<p>N/A</p> <p>The proceeds of SLBs are intended to be used for general purposes, hence, the use of proceeds is not a determinant in its categorisation.</p>	Recommended	

39. Social Project categories include, but are not limited to, providing and/or promoting: Affordable basic infrastructure, access to essential services, affordable housing, Employment generation, and programmes designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, Food security and sustainable food systems and Socioeconomic advancement and empowerment.

	External review requirements		Publication of external review	Accreditation of external reviewers
	Pre-issuance	Post-issuance		
	<p>Recommended</p> <p>In connection with the issuance of Social Bonds or a programme, issuers appoint (an) external review provider(s) to confirm the alignment of their bonds with the four components of the SBP.</p>	<p>Use of proceeds</p> <p>The review can take the form of Verification, certification and social bond scoring/rating. So long as the Social Bonds are outstanding, the balance of the tracked net proceeds should be periodically adjusted to match allocations to eligible social projects made during that period. The SBP recommends that an issuer's Social Bond 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.</p> <p>Impact Reporting</p> <p>Issuers with the ability to monitor achieved impacts are encouraged to include those in their regular reporting. Voluntary guidelines aiming at a harmonised framework for impact reporting exist for social projects are provided which the issuers can adopt and/or adapt to their needs.</p>	Recommended	Not addressed in SBP.

	External review requirements		Publication of external review	Accreditation of external reviewers
	Pre-issuance	Post-issuance		
	<p>Recommended</p> <p>Publication of any pre-issuance external review, such as a second party opinion, or if relevant a verification of baselines.</p>	<p>Mandatory</p> <p>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.</p> <p>Issuers should seek independent and external verification of their performance level against each SPT for each KPI by a qualified external reviewer, at least 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.</p> <p>The verification of the performance against the SPTs should be made publicly available.</p>	<p>Mandatory</p> <p>The verification of the performance against the SPTs should be made publicly available.</p>	Not addressed in SLBP.

4

The role of a verifier/certifier

Green Bonds

As said previously, the importance of combatting “greenwashing” has increased over time as the Green Bonds issuance grew in volume and count. There are a variety of ways for issuers to obtain outside input to assure stakeholders on their Green Bond process and there are several levels and types of review that can be provided. They are broadly grouped into the following types, with some providers offering more than one type of service:

Verification

Issuers can have their Green Bonds independently verified by qualified third parties. Verification may concern the alignment with the issuers’ internal standards or claims or practice developed standards (i.e. ICMA standards, CBI standards and EU GBS). Verification is performed by issuing a report on a pre-issuance basis and/or on a post-issuance basis typically by audit firms who have competence and experience in providing assurance services and/or conformity assessments in line with International Standard on Assurance Engagements (“ISAE”) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (“ISAE 3000 (Revised)”).

Certification

Consists of having the Green Bonds, associated frameworks or use of proceeds certified against an external green assessment standard by qualified third parties (such as audit firms) or certifiers.

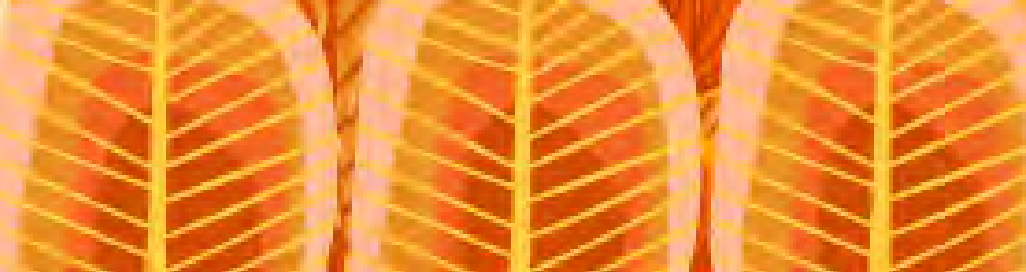
Second party opinion

An opinion on the green credentials of the Green Bonds issued by a sustainability consultancy firm and based on its own methodology.

Rating

Specialised research providers or rating agencies may rate Green Bonds and their issuers.





Social and Sustainability Bonds

The SBP encourage independent review of social features of the (types of) assets or activities associated with the Social Bonds or Social Bonds programme, where applicable. Independent external reviews may vary in scope and may address a Social Bond framework/programme, an individual Social Bond issue, the underlying assets and/or procedures. They are broadly grouped into the same types as the Green Bonds (i.e. verification, certification, second party opinion and rating).

The SBP encourage external review providers to disclose their credentials and relevant expertise and communicate clearly the scope of the review(s) conducted.

Sustainability-Linked Bonds

Issuers should seek independent and external verification (for example limited or reasonable assurance) of their performance level against each SPT for each KPI by a qualified external reviewer with relevant expertise, such as an audit firm and/or an environmental consultant, at least 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 selected 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.

Recent Developments - the draft EU GBS

Under the draft EU GBS, a two-step verification process is required; an initial pre-issuance verification of the Green Bond framework and a post-issuance verification which covers two types of reporting:

- **Allocation Reporting:**
Issuers shall report at least annually, until full allocation of the bond proceeds to Green Projects and thereafter, in case of any material change in this allocation. Verification is only required for the Final Allocation Report.
- **Impact Reporting:**
Issuers shall report on the impact of Green Projects at least once during bond lifetime after full allocation of the bond proceeds to Green Projects and thereafter, in case of material changes in this allocation. Verification of estimated impact reports is not mandatory but highly recommended.

External review requirements

Required verification of the Green Bond Framework and the Final Allocation Report by an accredited verifier to confirm conformity with the EU-GBS.

Accreditation of external reviewers/verifiers

In relation to the proposed EU Green Bond Standard, the TEG recommends that the external verifiers are accredited. The overarching objective of the future regime for accreditation and supervision of EU-GBS verifiers is to promote the development of the European Green Bond market by improving the quality and the robustness of external review, verification/certification services through standardisation and harmonisation of existing practices for the EU-GBS, thus enhancing investor confidence.

The TEG has recommended that oversight and regulatory supervision of external review providers eventually be conducted via a centralised system organised by ESMA. However, until the legislative process for a potential ESMA-led supervision can be fully operational, a market-based, voluntary interim registration process for verifiers (the Scheme) of EU Green Bonds may be set up for a transition period of up to three years.

It was also suggested that while providing verification services related to the EU-GBS, external verifiers will also confirm and provide evidence that they, amongst other things, have competence and experience in providing assurance services and/or conformity assessments in line with, among others, ISAE 3000 and/or DIS ISO 17029.

These new developments might result in an increased involvement of the audit firms in providing mostly post-issuance verification or “assurance” services throughout the process.

5

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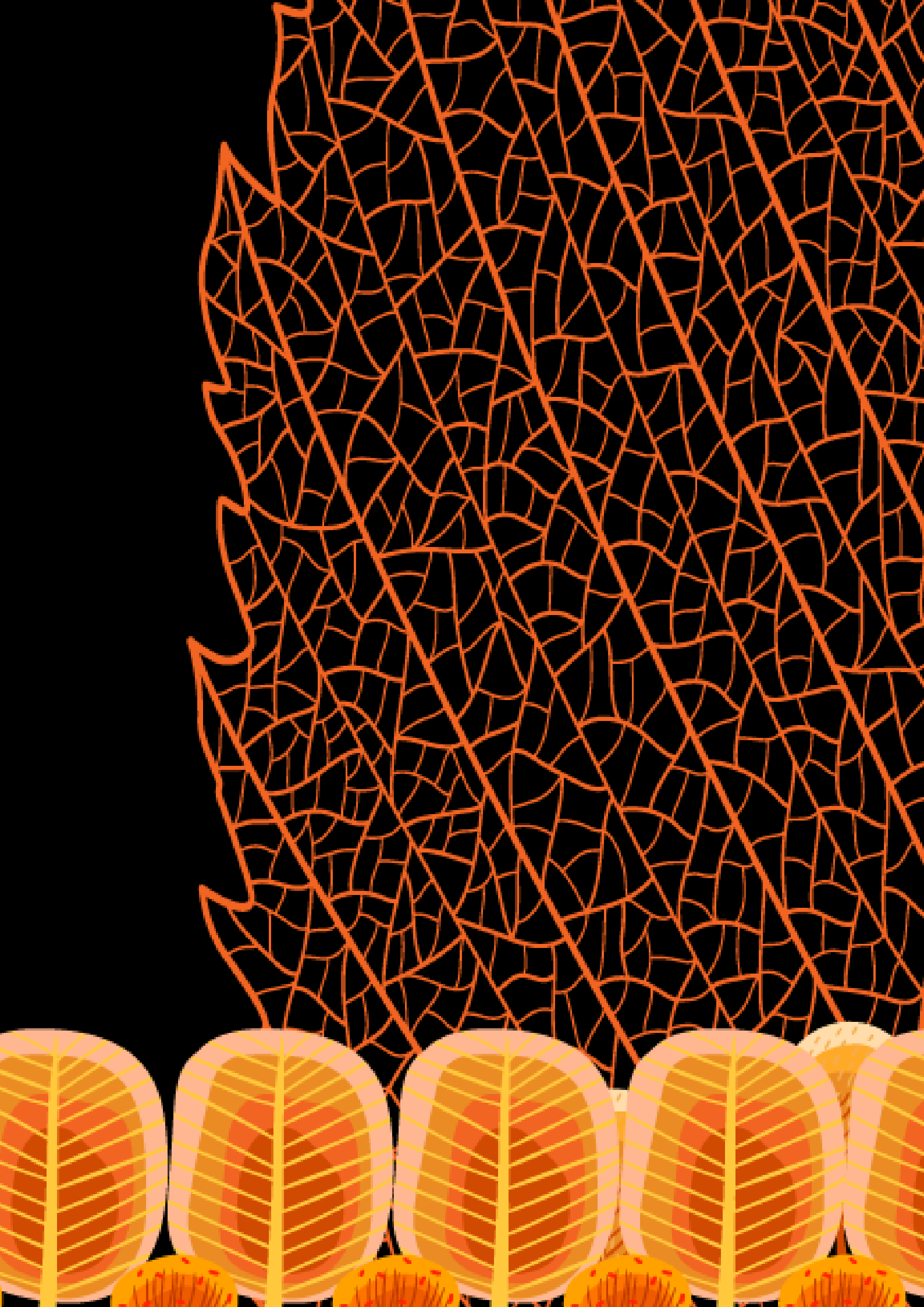
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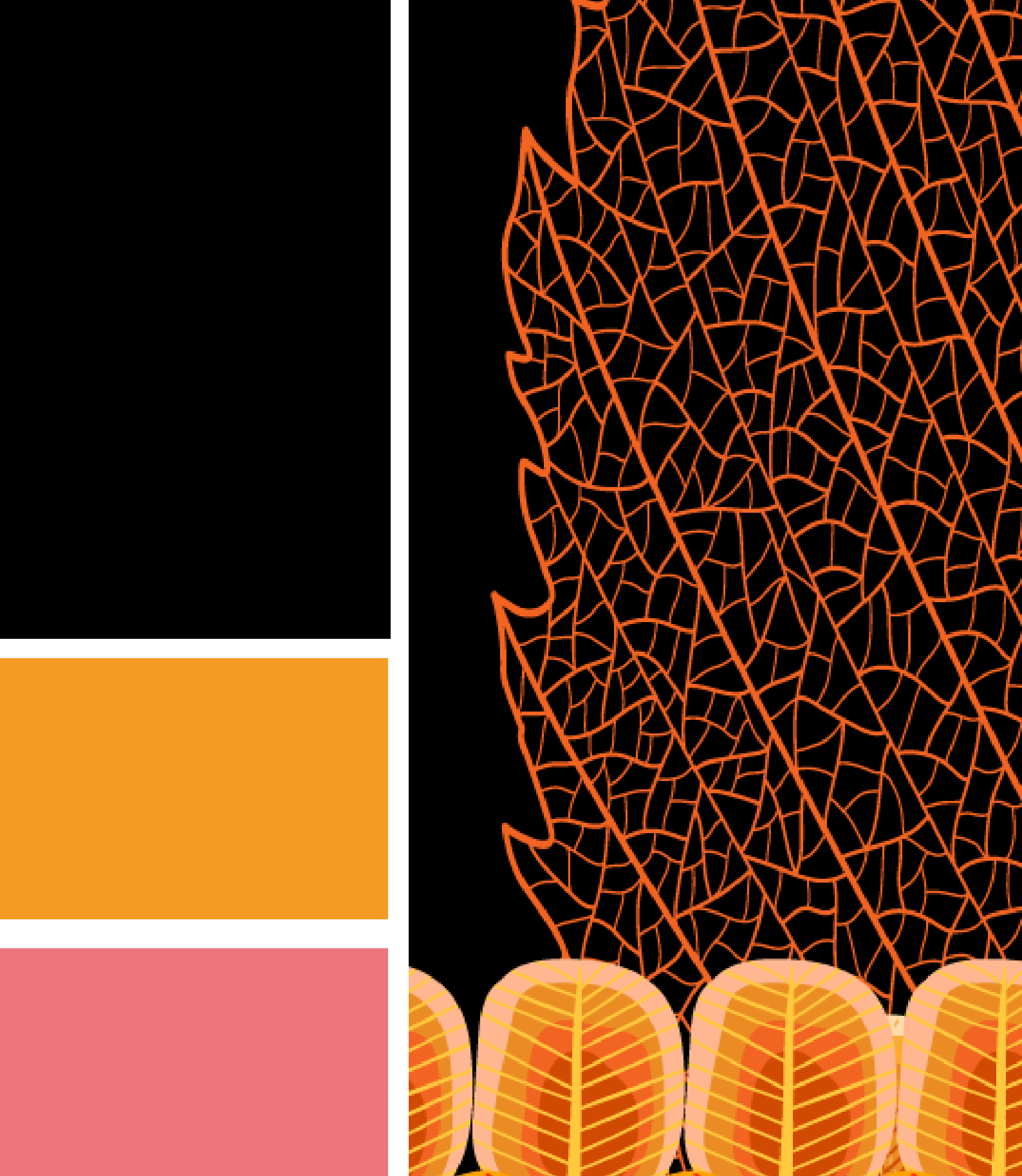
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