

The ICMA's Green and Social Bond Principles

An overview

By Johannes Trautwein (johannes.trautwein@dzbank.de) and Marcus Pratsch (marcus.pratsch@dzbank.de), DZ BANK AG

The Principles

The Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG) and Sustainability-Linked Bond Principles (SLBP) are published and managed under the umbrella of the Principles.

„The Principles are a collection of voluntary frameworks with the stated mission and vision of promoting the role that global debt capital markets can play in financing progress towards environmental and social sustainability”, according to the Principles. They are voluntary guidelines, managed by its members and observers, providing best practices on how to issue Sustainable Bonds. The International Capital Market Association (ICMA) provides the Secretariat to the Principles since its appointment by the Executive Committee in 2014.

The Green Bond Principles

Since its launch in 2014, the GBP have been updated several times to reflect the market developments and serve as the market standard in the Green Bond market. The GBP define a Green Bond as “[...] any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects (see Use of Proceeds section below) and which are aligned with the four core components of the GBP”. Despite its numerous updates the four core components of the initial version are still part of the current version of the GBP (June 2021 with June 2022 Appendix 1):

1. Use of Proceeds:

The utilisation of the proceeds is the cornerstone of a Green Bond. Selected “eligible green projects” should create clear environmental benefits that are evaluated and, if possible, quantified. The GBP also recommend transparency on proportion of financing vs. refinancing and on the “look-back period”. The GBP provide examples of environmental objectives green projects can support: climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation, and pollution prevention and control. Furthermore, the GBP provide a non-exhaustive list of potential green project categories.

2. Process for Project Evaluation and Selection:

Issuers are asked to clearly communicate to investors the environmental sustainability objectives, the process by which the issuer determines how the projects fit within the eligible green projects categories and the eligibility criteria, possible exclusion criteria, and other measures to identify and manage environmental and social risks. Issuers are also encouraged to position information communicated above within context of issuer’s overarching objectives, strategy, policy etc., information on alignment of projects with official or market-based taxonomies, etc., and process for identifying mitigation measures for known significant risks of negative social and/or environmental impacts of projects.

3. Management of Proceeds:

The net proceeds or equivalent amount of a Green Bond should be credited to a sub-account, transferred to sub-portfolios, or otherwise tracked. The GBP recommend monitoring use of funds by auditors or other third parties.

4. Reporting:

Provision of up-to-date information on the use of the proceeds of the issue in terms of allocation and impact via annual reports. It is possible to report at project or portfolio level. The GBP recommend disclosing methodologies and assumptions for the calculation of the impact reporting.

Furthermore, the GBP incorporated two key recommendations for heightened transparency over recent years:

i. Green Bond Frameworks:

Issuers should explain the alignment of the Green Bond (programme) with the four core components of the GBP in the Green Bond Framework or legal documentation - both should be available in a format that is easily accessible to investors.

ii. External Reviews:

Recommendation to mandate an external review provider to assess pre-issuance alignment of Green Bond (programme) and/or Framework with the GBP's four core components. Furthermore, it is recommended to request post issuance the verification of the internal tracking and the allocation of funds by an external auditor (or other third party).

The Social Bond Principles

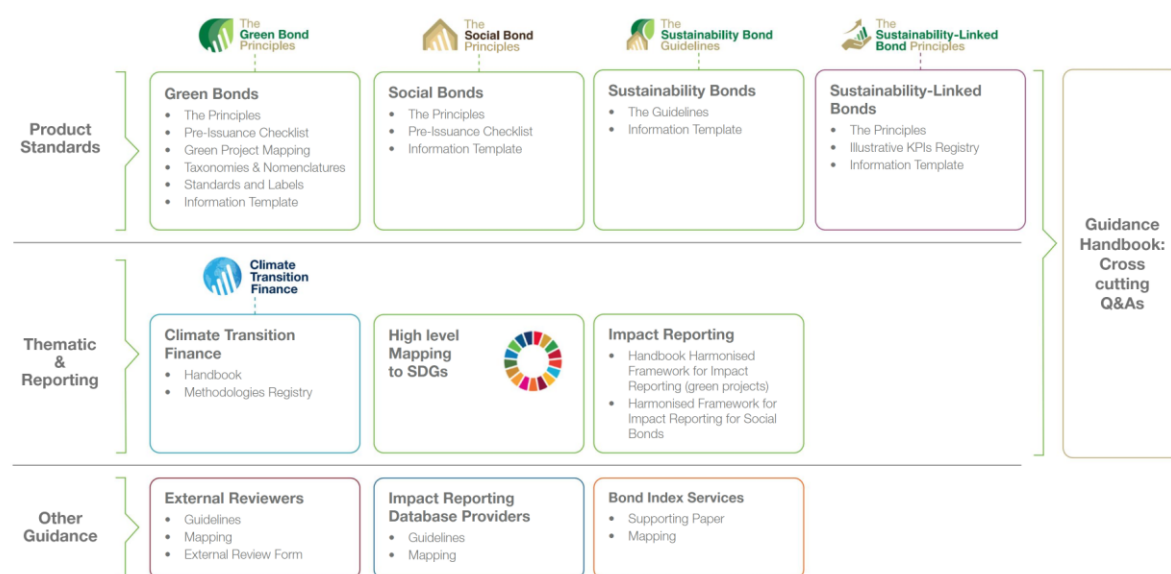
Following the launch of the Social Bond Guidance in 2016, the Social Bond Principles were published for the first time in 2017 and replaced the Guidance. In line with the GBP, the SBP also consist of the same four core components and two key recommendations. While the recommendations in the core components 2 to 4 (Process for Project Evaluation and Selection, Management of Proceeds and Reporting) and the two key recommendations (Social Bond Framework, External Review) are very similar except of the different objective, i.e. social vs. environmental, the core component 1 "Use of Proceeds" for Social Bonds shows stronger differences compared to Green Bonds. While the SBP provide a list of potential social project categories, which is in line with the GBP, the SBP also highlight the importance to seek to achieve positive social outcomes especially but not exclusively for a target population. As a consequence, the SBP provide in addition to the eligible social project categories a list with examples of target populations.

In June 2022, the Principles added the "Appendix I (June 2022)" to the GBP as well as SBP. It provides new definitions for green and social securitisation (Secured Green Collateral Bond, Secured Green Standard Bond) and clarifies terminology and market practice, notably for collateral. The GBP and SBP recommend issuers, originators, or sponsors of Secured Green / Social Bonds to clearly specify in the marketing materials whether it is a Secured Green / Social Collateral Bond or a Secured Green Standard Bond.

Additional Guidance and Toolkits by the Principles

Over the last years the Principles have published a broad spectrum of additional principles, guidance and toolkits, often developed within the numerous working groups of the Principles, covering the various sections and parts of the Sustainable Bond universe.

Overview of the Guidance and Toolkits provided by the Principles



Source: The Principles (2023)

In addition to the GBP and SBP, the Principles also published the Sustainability Bond Guidelines for bonds where the proceeds are used for green as well as social projects. Beside the “Use of Proceeds” (“UoP”) bonds (Green, Social and Sustainability Bonds), the rather new type of “Target-Linked” bonds were first issued in 2019. Consequently, the Principles published in 2020 the Sustainability-Linked Bond Principles for bonds, where proceeds are primarily used for general corporate purposes in pursuit of identified Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs).

Furthermore, the Principles published the Climate Transition Finance Handbook (CTFH) in 2020 “[...] to provide clear guidance and common expectations to capital markets participants on the practices, actions and disclosures to be made available when raising funds in debt markets for climate transition-related purposes.”

In order to support issuers of Sustainable Bonds regarding the evaluation of the financing objectives against the Sustainable Development Goals, the Principles developed the paper “Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals”, with the latest version being published in June 2022.

With regards to the impact reporting, elementary part of any “UoP” bond, the Principles published the “Handbook - Harmonised Framework for Impact Reporting” for green projects as well as the “Harmonised Framework for Impact Reporting for Social Bonds”, both with the most recent versions being published in June 2022.

Further guidance and research papers are also available on the website of the Principles, such as “Green Project Mapping”, “Pre-issuance Checklist for Green Bonds / Green Bond Programmes” (also available for Social Bonds and Programmes), “Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews”, and “Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds’ Impact Reporting Databases”.

Further information with the respective documents can be found on the following website of the Principles:
[Sustainable Finance | ICMA » ICMA \(icmagroup.org\)](#)

Source: The Principles (2023)