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Issuing an ESG-Labelled Bond in the International Debt Capital Markets: Which ESG Label Approach is best suited for my Company?

A short guide for corporate issuers

Is the Company able to issue a conventional bond in the international capital markets?

NO

As the international debt capital markets involve private capital and not public subsidies, at the present time an ESG-Labelled Bond can only be successfully issued if there is demand for a conventional bond from the relevant Company.

YES

Does the Company have specific green, social or sustainability projects (including the refinancing of existing green, social or sustainability projects) that it wishes to fund with the proceeds of the bond?

NO

YES

Are the specific green, social or sustainability projects going to use the entire proceeds of the bond?

NO

Is a smaller bond issue to match the size of the specific green, social and sustainability projects contemplated going to be marketable in the international debt capital markets?

NO

Does the Company have a Company or Group-wide ESG Strategy in place that has identified key performance indicators (KPIs) for ESG metrics that are relevant, core and material to the Company's business? Are these KPIs measurable using a consistent methodology and externally verifiable?

YES

YES

Is the Company willing to manage the proceeds so that they will only be applied to such projects (noting that this may require a cost of carry until the proceeds are applied)?

NO

NO

YES

Has the Company set Company or Group-wide targets (Sustainability Performance Targets, SPTs) for those KPIs? Are these SPTs ambitious and have they been benchmarked using external references?

NO

YES

Is the Company presently able and willing to implement such an ESG Strategy?

NO

YES

YES

The Company should consider a "use of proceeds" ESG-Labelled Bond. The most common "use of proceeds" ESG-Labelled Bonds in the international debt capital markets are issued under the following ICMA principles:

Green Bond Principles – a Green Project can be anything that the Company can credibly claim and defend as environmentally beneficial

Social Bond Principles – Social Projects aim directly to address or mitigate a specific social issue and/or seek to achieve positive social outcomes, usually in respect of an identified target population

Sustainability Bond Guidelines – Bonds relating to a use of proceeds for a mix of Green and Social Projects

The Company should, to the extent it has not already, engage with an environmental consultant to construct a "Framework" document that meets the relevant ICMA principles. In particular, the Framework will need to set out the eligible projects that the Company will pursue using the proceeds and the process for project evaluation and selection.

A Second Party Opinion on the relevant Framework is an ICMA recommendation.

Post-issuance, the ICMA Principles recommend reporting on the use of proceeds annually, and also reporting on the achieved impacts of the relevant projects.

For further details, see the relevant Principles and speak to the Dentons Contacts overleaf.

To prepare for a Sustainability-Linked Bond, the Company will need to engage with a consultant who will use the Company's KPIs and SPTs to draft a Framework for Sustainability-Linked Bonds. The Framework will need to specify the potential impacts on any Sustainability-Linked Bonds (usually a coupon step-up or premium payment), if the Company fails to achieve the designated SPTs. In theory achievement of the SPTs could trigger positive impacts for the Company (e.g. coupon step-downs), but these have not been observed in practice. There may be an impact on timing compared with a conventional bond as the Company's KPIs and SPTs need to be drafted into the Framework.

To prepare for a Sustainability-Linked Bond, the Company will need to engage with a consultant to select KPIs, select Sustainability Performance Targets (SPTs) and draft a Framework setting out these KPIs and SPTs as well as the impact on the Sustainability-Linked Bonds (usually a coupon step-up or premium payment), if the Company fails to achieve the designated SPTs. There will be an impact on timing compared with a conventional bond as there will be significant work required to identify and select KPIs and SPTs and draft the Framework.

The Company is not presently in a position to issue an ESG-Labelled Bond. The Company could consider conventional financing, such as a conventional bond or loan.

The Company should consider a Sustainability-Linked Bond if the timing impact is not going to disrupt issuance plans.

Sustainability-Linked Bond proceeds may be used for any corporate purpose. The financial or structural characteristics of the bond will vary depending on whether or not the Company achieves the SPTs. The range of KPIs and SPTs that a particular Sustainability-Linked Bond may choose from are set out in the Framework. The individual bond's terms and conditions will apply one or more of those KPIs and SPTs to a particular bond issue. The structural change is frequently a coupon step-up or a premium payment on redemption of the bond if the Company fails to meet the SPTs.

A Second Party Opinion on the Framework is an ICMA recommendation.

Annual reporting on the relevant bond KPIs and progress towards achievement of the SPTs is required. Verification of that reporting by an external expert is also required.

For more details, please see the ICMA Sustainability-Liked Bond Principles, and speak to the Dentons Contacts overleaf.

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