ACCOUNTING FOR SUSTAINABILITY

DEVELOPING AND IMPLEMENTING A SUSTAINABLE FINANCE FRAMEWORK

TOP TIPS FOR TREASURY TEAMS

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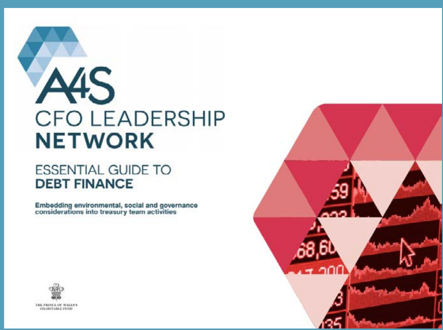


A4S Essential Guide to Debt Finance

These top tips have been developed in support of the A4S Essential Guide to Debt Finance.

Download the guide

BACKGROUND

Companies, with their ability to utilize capital from the financial markets for projects with tangible impact on the ground and their ability to set and deliver on sustainability targets, are an essential part of the solution to delivering a sustainable economy.

Pressure to take action on sustainability is growing as a result of shifting social norms, regulation and a recognition of the financial implications resulting from a failure to act. A range of stakeholders increasingly expect companies to disclose more information on their approach and actions in relation to sustainability. At the same time, there are significant opportunities for the business community in relation to delivering the Paris Agreement on climate change, the Kunming-Montreal Global Biodiversity Framework and the Sustainable Development Goals (SDGs).

Sustainable finance is the integration of environmental, social and governance (ESG) considerations into investment and lending decisions. This includes considering specific environmental and societal impacts when issuing and using debt. Sustainable finance also involves taking steps to respond to material ESG issues and opportunities and integrating these into all 'mainstream' lending, financing and investment decisions.

Lenders and investors see environmental and social issues as well as sustainability performance as integral to risk and returns, from both a financial and reputational perspective. There is also momentum across financial markets to act on sustainability issues and to benefit from the opportunities presented by being more sustainable. Taking action on sustainability allows organizations to align with the long-term perspectives that are currently being promoted by a number of financial institutions.

One focus area of sustainability action is setting and operationalizing net zero commitments. Through global initiatives such as the Glasgow Financial Alliance for Net Zero (GFANZ), financial institutions make a unified commitment to decarbonize the economy. The achievement of net zero commitments made by financial institutions is dependent on borrowers and investee companies taking action. Lenders and debt investors are increasingly seeking to engage with borrowers and investee companies on climate to understand how they are responding and encourage them to align with net zero and, more recently, biodiversity and the protection and restoration of nature.

This interest and momentum in sustainability action and sustainable finance presents opportunities for treasury teams to develop sustainable financial instruments and associated frameworks. For the purpose of this document the term sustainable financial instrument encompasses green, social and sustainable use of proceeds instruments as well as sustainability-linked instruments.

In addition to securing sustainable debt finance, treasurers are having to consider the sustainability credentials of their advisers and banking partners in their selection process, seeking alignment with the sustainability objectives of their own company. Ultimately, treasury teams can play a strategic role in steering their company towards a more resilient, long-term business model, thus contributing towards a more sustainable economy.

Insights: Investor Focus

According to HSBC's 2021 Sustainable Financing and Investing Survey of 2,000 issuers and investors, 89% regard environmental and social issues as important. More than half (51%) believe that paying attention to these issues helps improve returns or reduce risk – the highest percentage in three years. Most issuers (64%) say they expect to seek advice on green, social or sustainability issues in relation to capital markets transactions in the next 12 months, and 59% of investors say they now have a firm-wide policy in place on responsible investing or ESG issues.[1]

The A4S Finance Leaders' Sustainability Barometer, a survey of finance leaders (including Chief Financial Officers, Chief Investment Officers and accountancy leaders), found that 72% of participants noted investor demand as an important driver in adopting sustainable practices that embed ESG considerations into their business model, strategy and/or decision making.[2]

From the borrower's perspective, benefits received by those developing sustainable business models include increased engagement and a better relationship with lenders. Many have also reported lower cost of debt as a result.[3]

"We want to respond to investor demand and participate in developing the financial markets. With our framework, we can make our ambition visible. We were one of the first industrial companies in the Nordics to issue a green bond. Green bonds fit in perfectly with our strategy as sustainability is already integrated into everything we do within the company. Our sustainability agenda covers the social, environmental and economic aspects of our operations throughout the value chain, turning sustainability into a competitive advantage."

Pasi Kyckling, Senior Vice President Finance and Controlling (former Group Treasurer), Stora Enso

Insights: The sustainable bond market

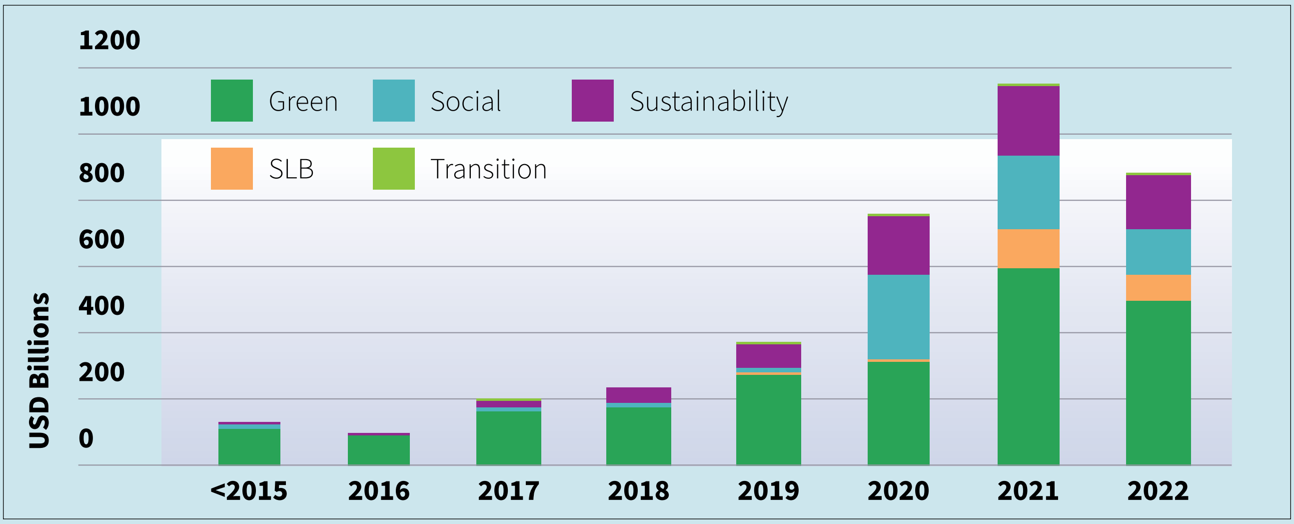


Figure 1: Global sustainable bond issuance by instrument (USDbn) as of 31 December 2022. Source: Climate Bonds Initiative

The sustainable bond market has shown significant growth over the last decade. Cumulative market issuance of green, social, sustainability, transition and sustainability-linked bonds (SLBs) was US$3.7 trillion as of 31 December 2022. Green bonds remain the most common type of bond instrument, representing 58% of the volume issued in 2022.[4] The most popular key performance indicator (KPI) in 2022 for green bonds was decarbonization, with over half of issuers including a greenhouse gas (GHG) emissions target.[5] This reflects the current focus in the market on transition plans, as financial institutions and corporates alike seek to put their net zero commitments into action. Organizations are grappling with measuring and reducing their scope 3 emissions and how these targets are incorporated in sustainable financial instruments. The data and methodologies for scope 3 are still evolving and many of the estimates are based on assumptions. This can be a challenge for those wanting to include scope 3 in sustainable finance frameworks, especially given that changing targets and re-baselining typically requires lender consent.

The social bond market saw particularly strong growth in response to the COVID-19 pandemic, as both the public and private sector sought to finance their response and create positive social outcomes. Setting and gathering data on social KPIs can be difficult, as sensitive data may be involved and the KPIs may be more complex and nuanced than those for green projects.

In 2022 we observed a year-on-year decline of 24% in the sustainable bond market, primarily driven by a significant reduction in social bonds – following their growth during the pandemic – and instability in the bond markets generally.[6] The total issuance of green, social, sustainability, sustainability-linked and transition bonds in 2022 was US$858.5 billion.[7] The only themed bonds to demonstrate growth in 2022 were transition bonds, which grew by 5% – albeit to the small size of US$3.5 billion (<1% of the market).[8]

The expectation for 2023 is that the sustainable bond market will return to 2021 issuance levels.[9] The Climate Bonds Initiative is pushing for continued momentum and a target annual issuance of green bonds in excess of US$5 trillion annually by 2025.[10]

Continued growth and diversification of these markets will be accompanied by innovation in new forms and structures, highlighted by the growing market for sustainability-linked bonds[11] and transition bonds. Other types of debt that are tied to sustainability outcomes, such as sustainability/ESG-linked loans, green loans, sustainable trade finance, leases and sustainable revolving credit facilities, are also becoming more common.

The purpose and evolution of a sustainable finance framework

The A4S Essential Guide to Debt Finance provides practical guidance to help treasury teams embed sustainability across all their activities. A key starting point is developing a sustainable finance framework to:

1. Support the financing or refinancing of assets and eligible expenditures of a sustainable nature
2. Finance the achievement of sustainability objectives

A sustainable finance framework sets out how a company incorporates sustainability criteria into its financing decisions. To be credible, it should align with the overall corporate strategy and with internationally recognized guiding principles, such as the International Capital Market Association (ICMA) or Loan Market Association (LMA) (see page on internationally recognized guiding principles for more details). It should also be subject to external review and validation. The framework can then be used as the basis for sustainable financial products. As sustainability becomes increasingly embedded into decision making, a sustainable finance framework would naturally evolve to cover all financing activities.

These top tips are aimed at both treasurers starting to consider sustainable finance and those who are looking to enhance their approach.

The diagram below highlights how sustainable financial instruments have expanded in scope from funding specific projects (ie a proceeds-based approach) to funding sustainability-linked KPIs. Sustainable finance frameworks have evolved in line with this progression.

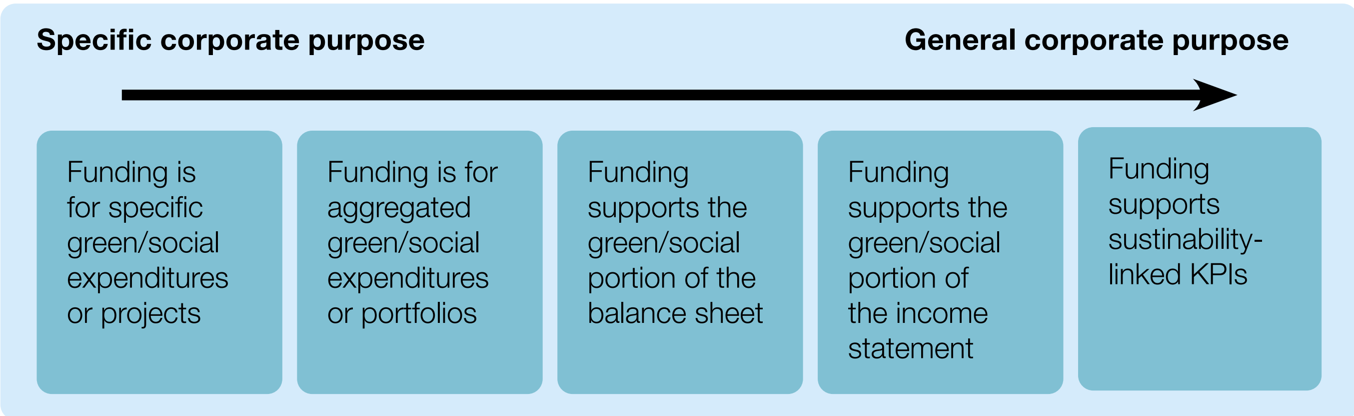


Figure 2: The evolution of sustainable financial instruments in the market, adapted from PCAF Global GHG Accounting and Reporting Standard.

Key milestones

2006

- The International Finance Facility for Immunisation issues the first social bond, to fund vaccinations.[12]

2007

- The European Investment Bank issues the first green bond, under the label Climate Awareness Bond.[13]

2013

- The US state of Massachusetts issues the first municipal green bond.[14]
- Gothenburg, Sweden, issues the first city green bond.[15]
- Vasakronan, a Swedish property company, issues the first corporate green bond.[16]

2014

- ICMA publishes the first Green Bond Principles.*[17]

2016

- Iberdrola, a Spanish multinational electric utility company, issues the world's first green loan for a utility company.[18]
- Poland issues the first sovereign green bond.[19]

2017

- ICMA publishes the Social Bond Principles.[20]*

2018

- LMA, the Asia Pacific Loan Market Association (APLMA) and the Loan Syndications and Trading Association (LSTA) publish the first Green Loan Principles.*[21]
- Olam, an international agribusiness, issues Asia's first three-year sustainability-linked revolving credit facility.[22]

2019

- APLMA, LMA and LSTA publish the first Sustainability-linked Loan Principles.*[23]
- Enel, an Italian multinational manufacturer and distributor of electricity and gas, issues the first sustainability-linked bond.[24]

2020

- Guatemala issues the first sovereign social bond to finance its COVID-19 response.[25]
- ICMA publishes the first Sustainability-linked Bond Principles.*[26]
- Suzano, a Brazilian pulp and paper producer, is the first emerging market participant to issue a sustainability-linked bond.[27]
- Novartis, a Swiss multinational pharmaceutical corporation, is the first in the healthcare industry to issue a sustainability-linked bond and the first company to issue a sustainability-linked bond incorporating social targets.[28]
- Etihad, the national airline of the United Arab Emirates, issues the world's first transition sukuk** and the first sustainability-linked financing in global aviation.[29]
- ICMA publishes the Climate Transition Finance Handbook.[30]
- NRG Energy, an integrated power company in the US, is the first North American company to issue a sustainability-linked bond.[31]

2021

- UltraTech Cement, a cement company based in India, is the first Indian company to issue a sustainability-linked bond.[32]
- APLMA, LMA and LSTA publish the Social Loan Principles.*[33]
- EDF, a British energy company, issues the world's first hybrid social bond.[34]
- Bank of China issues the world's first sustainability relinked bond.***[35]

2022

- Helsingborg, Sweden, issues the first municipality sustainability-linked bond.[36]
- Chile and Uruguay issue the first sovereign sustainability-linked bonds.[37, 38]

Figure 3: Sustainable finance milestones. Adapted from PCAF Global GHG Accounting and Reporting Standard.

* The timeline includes only the initial publication of guidelines rather than the updates.
**Sharia-compliant, fixed-income capital markets instruments[39]
***This bond is used to finance or refinance eligible sustainability-linked loans. The bond coupon is adjusted in line with the sustainability performance targets (SPTs) of the sustainability linked loans.[40]

Top tips overview

These top tips for developing and implementing a sustainable finance framework recommend a framework that supports the financing of:

- Planned projects – by adopting a use-of-proceeds approach and issuing financial instruments for green, social or sustainable projects.
- General corporate purposes – by embedding sustainability KPIs in financial instruments and issuing sustainability-linked financial instruments

The top tips offer practical guidance for treasurers and share insights from those that have already developed their own sustainable finance framework.

In this guidance we summarize key benefits to the treasurer and their company, and then share top tips broken down into the following five steps:

1. **Get started**
2. **Test and refine**
3. **Implement**
4. **Build momentum**
5. **Enhance and expand**

At the end of the guidance, we have provided links to internationally recognized guiding principles and additional resources from a range of companies around the world.

"Our sustainability credentials as an issuer, which form the basis of our green finance framework, have been integral to the successful execution of our sustainable finance plans. Three key pieces of advice that I would give are:
1. Ensure senior level engagement. A green finance strategy needs to be part of the overall corporate strategy.
2. Develop a detailed understanding of the sustainability challenges and opportunities of your industry and business in order to identify those areas where you can have the most impact.
3. Collaborate with the right people internally and externally. We found there to be a wealth of expertise across our business which was invaluable when structuring our green finance framework."

Emer Murnane, Group Treasurer, Smurfit Kappa Group

WHAT IS A SUSTAINABLE FINANCE FRAMEWORK?

A sustainable finance framework sets out how a company incorporates sustainability criteria into its financing decisions. As sustainable practices become further embedded in businesses, it is likely that businesses will have a single, sustainable business strategy (rather than separate business and sustainability strategies), with a financing framework to support this that covers most, or all, financing activity.

For most businesses, a good starting point is to develop a sustainable finance framework that supports one of the following:

- The financing of planned projects that deliver tangible sustainability benefits through issuing financial instruments for green, social or sustainable projects, applying a use-of-proceeds approach
- Raising general-purpose financing for the evolution of the business to more sustainable practices, applying a sustainability-linked approach
- A framework that covers both a use-of-proceeds approach and a sustainability linked approach

There are pros and cons of focusing on a use-of-proceeds approach instead of a sustainability-linked approach. The sustainability-linked approach allows for more flexibility in using the financing for general corporate purposes rather than it having to be earmarked for specific projects. It also sends a strong message to investors on the issuer's commitment to sustainability.

There is greater financial risk in issuing a sustainability-linked financial instrument, though, as failure to achieve sustainability performance targets (SPTs) may result in a financial penalty. The tenors and associated SPTs can also be difficult to structure, especially when trying to match short-term tenors and associated SPTs with long-term sustainability objectives; for example, achieving net zero by 2045.

In contrast, the use-of-proceeds approach has been around longer and is therefore more established with investors, there are no financial implications if objectives are not met, and in some cases the impact metrics are straightforward to measure.

However, the amount of capital raised may be limited by the ability to source eligible projects.

A sustainable finance framework should be viewed as a dynamic document, periodically updated and reissued to reflect evolution in guidance, additional asset classes and new sustainable financial instruments.

Use of proceeds

In line with internationally recognized guiding principles (see page on internationally recognized guiding principles for more details), a use-of-proceeds sustainable finance framework, for funding a specific project or projects, should include:

- **Use of proceeds**
  The categories of projects for which your company will use the proceeds and the measurable environmental or social benefits expected. Example use-of-proceeds categories include renewable energy, clean transport and climate change adaptation. A full list can be found in the guiding principles. If some or all of the proceeds are being used for refinancing, the framework should note the proportion of estimated financing versus refinancing, details of the investments and/or projects, and the look-back period.
- **Process for project evaluation and selection**
  The objectives of the eligible projects, the process for determining whether the projects fit within the categories identified, and how perceived social and environmental risks associated with the projects are identified and managed. Any exclusions can be noted as well as alignment with official or market-based taxonomies or accreditations.
- **Management of proceeds**
  How the proceeds will be managed, including tracking disbursements, allocating funds and approaching the balance of unallocated net proceeds.
- **Reporting**
  Annual or more frequent reporting on allocation, a brief description of projects and impact reporting.

- **External review**
  Independent external review to assess the framework and the issuances made under it.

Sustainability-linked

In sustainability-linked financial instruments, funds are not tied to specific projects but can instead be used for general purposes. Sustainability-linked financing includes a commitment to improve sustainability outcomes, measured through KPIs, within a set timeframe. Delivering the KPIs within a predetermined timeframe impacts the financial and/or structural characteristics of the financial product.

In line with internationally recognized guiding principles, a sustainability-linked finance framework should include:

- **Selection of KPIs**
  The KPIs used to track improvement in sustainability performance. Where possible, the KPIs should have been previously measured and reported by your company and be part of the overall strategy or climate transition plan. The framework should clearly communicate the reason for selecting the KPIs and how they fit with your corporate strategy. The KPIs selected should be specific, measurable, attainable, relevant and time bound (SMART), as well as externally verifiable and benchmarked. In accordance with ICMA's Sustainability-Linked Bond Principles, 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".

- **Calibration of Sustainability Performance Targets (SPTs)**
  The SPTs used to demonstrate measurable, ambitious and material improvements in the KPIs. These should be set for a specific, predefined period of time and, where possible, should be set in comparison to a benchmark or external reference. The SPTs should be aligned with long-term targets included in the corporate strategy, SPTs can provide short-term milestones for long-term fixed targets.

- **Characteristics**
  The change in financial and/or structural characteristics of the financial instrument that will result from the delivery – or failure to deliver – the SPTs (this is known as a 'trigger event'). Such characteristics include the margin ratchet and the type of penalty or reward incentive.

- **Reporting**
  Periodic, at least annual, reporting on the KPIs against the SPTs, including any changes to the instrument's financial and/or structural characteristics.

- **Verification**
  Verification of your company's performance against your SPTs for each KPI, this external review is a requirement. Pre-issuance and post-issuance external review, ie a second party opinion is recommended.

In certain cases, a company may choose to combine a use-of-proceeds approach and a sustainability-linked approach into one framework or may develop two separate frameworks, one for each approach.

Gradually, the frameworks can evolve such that they drive all the corporate finance activities of your company and support the integration of sustainability factors into the overall corporate strategy.

BENEFITS FOR TREASURERS

Treasurers can derive a number of benefits from the development and implementation of a sustainable finance framework, listed below.

Take advantage of market interest and sustainable finance opportunities

There is clear and growing market interest in sustainable financial instruments. Treasury teams that understand the latest trends can take advantage of the associated market opportunities. This might include:

- Access to new pools of finance, such as green trackers and funds
- Increased demand, with orderbooks for sustainable financial instruments often oversubscribed
- Pricing benefits, based on the logic that investors are willing to pay extra or accept lower yields in exchange for sustainable impact (known as the 'greenium')[41]

Some market commentators suggest that in the future, sustainable financial instruments will not exist, and sustainability will instead be priced as a second dimension for borrowers alongside credit. Developing a sustainable finance framework and issuing sustainable financial instruments allows you to start preparing for this change now.

Engage with market participants to advance sustainability

Market participants such as regulators, investors and lenders are increasing their focus on sustainability factors. Treasury teams that have an established sustainable finance framework have a clear structure to initiate the dialogue and set out their intentions with their debt providers and investors.

Align with investors' sustainability goals

Investors are increasingly setting their own sustainability goals and targets, including net zero commitments. Treasury teams that have a sustainable finance framework can more clearly demonstrate alignment with their investors' sustainability ambitions, making the company's investment case more attractive.

Contribute to a more sustainable economy

Leaders from each component of the financial system are focusing more on sustainable outcomes. Treasury teams that have sustainable financial instruments, and regularly report on their progress, are contributing to a more sustainable economy.

Make more purposeful financing decisions

Growth in the sustainable finance market signifies the increasing prominence of sustainability criteria in business and investment decisions. Treasury teams that have integrated sustainability factors into their strategic planning and financing activities can use this information to make decisions on investment, capital raising, and risk management. As sustainability criteria in business and investment decisions become more stringent, those that are already engaged and that have aligned their financial instruments will be well positioned to respond.

Champion sustainability within the business

Treasurers can use lender and investor interest in sustainability-related activities to build engagement internally, including with the board. They can build stronger relationships with different teams across the business and then jointly champion sustainability. The treasury team can help others to think about opportunities to embed sustainability into capital expenditure and other activities where financing may be required. The team can also contribute to cross-team knowledge sharing and collaboration, helping steer the company towards a more sustainable business model.

BENEFITS TO YOUR COMPANY

The potential benefits to your company as a result of developing and implementing a sustainable finance framework include the following:

Better risk management and mitigation

- Improved understanding of risks through a more granular evaluation of environmental and social impacts and dependencies.
- Reduction and mitigation of sustainability-related risks via enhanced sustainability performance and promotion of more responsible business practices – issuing a sustainable finance framework and associated sustainable financial instruments is likely to attract ESG-oriented investors, improve transparency and disclosure, and align incentives with sustainability goals.

Greater access to capital

- Increased lender and investor confidence in your company's approach to risk and opportunity.
- Stronger position for maintaining access to capital and realizing a lower, or avoiding a higher, cost of capital.
- Greater access to lenders and investors who have specific sustainable investment criteria.

Enhanced sustainability credentials

- Better internal understanding and endorsement of the company's sustainability credentials.
- Improved dialogue with debt providers, investors and sustainability research and rating agencies.
- Enhanced credibility of your company's approach to sustainability through having a transparent sustainable finance framework.
- Increased appeal with wider stakeholders, including staff (with improved recruitment and retention), customers, clients and prospective clients – individuals and organizations are increasingly incorporating sustainability factors into decision making and are expecting the same of those they engage with.

Improved information for sustainability reporting (if developing a sustainability-linked framework)

- Demonstrable competence in developing, measuring, tracking and reporting on sustainability KPIs.
- Enhanced internal processes on gathering and interpreting sustainability performance data.
- Greater internal awareness of relevant sustainability KPIs.
- Increased ability and preparedness to report in line with sustainability standards – such as those from the International Sustainability Standards Board (ISSB) or the Global Reporting Initiative (GRI).

"We were the first agri-food company to issue a US$-denominated sustainability-linked bond (SLB) in Southeast Asia. The SLB was based on a lifecycle assessment to quantify the environmental impact of our poultry products, providing a science-based approach to decision-making on environmental issues. The lifecycle assessment, which took two years to complete, identified the key environmental hotspots in our poultry lifecycle. This provided the basis for a sustainability-linked financing framework and establish targets based on key focus areas. The SLB process has been beneficial in getting top management to further embrace and embed sustainability in our operations. This acts as a catalyst to achieve our sustainability targets and an opportunity for investors and stakeholders to partner with us to drive change towards a sustainable future."

Kevin Monteiro, Chief Financial Officer, Japfa

A focus on climate benefits

If your company is focused on addressing the climate emergency and/or has set a net zero target, developing a sustainable finance framework and issuing sustainable finance products (with green use of proceeds or climate KPIs and SPTs) can help to forward your approach.

Alignment of business model with the Paris Agreement goals

- Evidenced, verified and robust approach to decarbonization, including science-based targets and transition pathways (through a transition bond and sustainability-linked finance).
- Stronger demonstrable, company-wide alignment to net zero through a sustainability-linked or transition financial instrument tied to GHG emissions or a transition plan – a corporate strategy to address climate-related risks is a prerequisite of issuing a transition-labelled financial instrument.
- Increased disclosure and transparency on climate-related funding and climate KPIs.
- Demonstrable leadership in taking action to address the climate emergency.

Boost in funding for low carbon projects

- Formalized approach for allocating capital to climate positive solutions (through a green or sustainability bond).
- Enhanced funding for low-carbon innovation – funding can be used for research and development and to support commercialization, encourage collaboration with stakeholders, and promote market demand for low-carbon products and services.
- Accelerated transition to a low-carbon economy and promotion of more sustainable business practices through targeted funding.

"Ramsay's sustainability-linked loan includes embedded targets that align with our global sustainability strategy and demonstrate our long-term commitment to making a positive, meaningful difference to our people, the planet and the communities in which we operate. We found that, to succeed, the transition to a sustainable financing model requires strong leadership — the board, CEO and CFO need to be equally committed to making it happen. It's also essential that the targets embedded in the loan link back to your specific strategy and for internal stakeholders, such as your finance and sustainability teams, to be strongly aligned and working together."

Martyn Roberts, Group Chief Financial Officer, Ramsay Health Care

FIVE TOP TIPS FOR DEVELOPING AND IMPLEMENTING A SUSTAINABLE FINANCE FRAMEWORK

These five top tips walk you through the process of developing and implementing a sustainable finance framework. Once published, you should regularly review and expand your sustainable finance framework to reflect emerging or updated guidance as well as a wider spectrum of financial instruments. Your sustainable finance framework should be the basis from which you issue sustainable financial instruments.

1. GET STARTED

Understand your current position in relation to sustainability risks and opportunities, map out what you want to achieve and understand the internationally recognized guiding principles and regulatory environment.

2. TEST AND REFINE

Get buy-in from internal parties and recognize the expectations of market participants.

3. IMPLEMENT

For the use of proceeds approach, start with projects that address your company's environmental or social priorities and report on their risk exposure and impact. For the sustainability-linked approach, use KPIs and SPTs that are aligned with your strategy.

4. BUILD MOMENTUM

Engage more widely with stakeholders to establish your framework and define treasury's role in driving change. Identify key sustainability levers to transform your business.

5. ENHANCE AND EXPAND

Take advantage of market developments and enhance and expand your framework to drive all your corporate finance activities.

1. GET STARTED

When developing a sustainable finance framework, a useful first step is to understand your starting position in relation to sustainability risks and opportunities and to map out what you want to achieve. This involves reviewing internal processes, relevant regulation and international guiding principles; identifying gaps; and then drawing up a plan to address them. Some of your sustainability objectives may be outlined in your net zero transition plan, which should be reviewed as you develop your sustainable finance framework.

UNDERSTAND YOUR CURRENT POSITION

You can start by engaging with your sustainability team and other relevant departments to understand your company's current approach to sustainability. By knowing what the strategic objectives, key targets (including relevant KPIs) and initiatives are, you can then better align treasury's activities to them.

REVIEW RISKS AND ASSESS PROCESSES

Review the sustainability risks and opportunities relevant to your company and understand their impacts and dependencies. You can then assess whether they are sufficiently accounted for in treasury's planning and operational processes. For example, when you identify the need for finance, do you consider the sustainability credentials and objectives of the parties you will potentially work with?

USE INDUSTRY GUIDELINES AND STANDARDS

There are internationally recognized guiding principles available to help you decide what you want to achieve through sustainable finance and which you can use to help you structure your framework. Available guiding principles include guidance issued by Climate Bonds Initiative, ICMA, LMA, APLAM and LSTA as well as the EU Green Bond Standard (see page on internationally recognized guiding principles for more information). You can use these to start shaping an approach that supports your corporate strategy and sustainability objectives.

REVIEW FRAMEWORKS DEVELOPED BY PEERS

Review the sustainable finance frameworks produced by other companies within your industry or region to consider their approach and identify leading market practice. This exercise may also help you to identify material environmental and social risks in your industry or region.

CONSIDER ANY INTERNATIONAL FRAMEWORKS

Assess whether you should align your framework with the 17 SDGs, and how you might do so, including the underlying targets and indicators. The SDGs were originally developed for UN member states but an increasing number of companies and financial institutions are now using them as a high-level framework for their sustainable activities. ICMA has released guidance – A High-Level Mapping to the Sustainable Development Goals[42] – and an accompanying Excel file[43] that details the SDGs that align to green bond and social bond project categories and provides example indicators.

UNDERSTAND THE CURRENT REPORTING LANDSCAPE

Find out what ESG/sustainability data your company is already collecting and reporting on, and what disclosures are requested by investors, regulators and lenders. With the help of relevant colleagues, and reference to standard setters (such as ISSB and GRI), you can define the sustainability disclosures and any relevant KPIs for your sustainable finance framework. These may include both qualitative and quantitative performance indicators that can be used to evaluate progress or impact over time. Your defined sustainability disclosures may influence the pricing of certain sustainable financial instruments.

CONSIDER INCLUDING THIRD-PARTY AUTHENTICATION OF SUSTAINABILITY CREDENTIALS

For a sustainable finance framework applying a use-of-proceeds approach, consider using third-party certification of a project's sustainability credentials. For example, if the funding is being used for a building project, it may be appropriate to refer to the project being EDGE certified, rated excellent under BREEAM, rated gold or above under LEED, or list its credentials under other similar international accreditations. For sustainability-linked financial instruments, net zero KPIs may be accredited by organizations such as the Science Based Targets initiative (SBTi).

CONSIDER THE REGULATORY ENVIRONMENT

As the sustainable finance market continues to grow, the increase in the amount of legislation and regulation can also be expected to continue. When drafting your sustainable finance framework, you should ensure that it complies with all relevant legislation and this alignment could be highlighted in the framework itself. For example, some companies are explicitly referencing the alignment of their framework to green taxonomies – classification systems of sustainable activities focused on key environmental objectives.

USE PARTNERS

To assist in the process of developing a sustainable finance framework, you may wish to appoint a banking partner or other adviser to guide you through the process or draft the framework. Technical experts and practitioners, such as arranger banks, offer sustainable financial instruments and services, including guidance on selecting appropriate KPIs, based on the experience of others. Sustainability consultants, research providers and rating agencies also offer sustainable finance advisory services. By reaching out to these parties at an early stage, you can be better prepared to develop and implement your framework.

DEVELOP A PLAN AND ESTIMATE COSTS

Work out a timeframe for developing and implementing your framework, including key milestones and deliverables and the parties responsible. Provide information on your assumptions about expected outcomes and their related risks and uncertainties. You should also consider the costs associated with developing a sustainable finance framework and associated sustainable financial instrument. These costs can include both external costs (such as obtaining a second party opinion and any assurance and consultancy fees) and internal costs (such as staffing costs to produce the framework and to track and report progress, and board/management time for review and sign-off).

DRAFT YOUR FRAMEWORK

After taking the above steps, you will be well placed to draft a sustainable finance framework for your company. You may choose to start with a framework that primarily focuses on a use-of-proceeds approach or one that focuses on a sustainability-linked approach the aligns with your company's environmental and social objectives. Over time, you can enhance your framework so that it covers both sustainability-linked and use-of-proceeds approaches, as well as covering a variety of sustainable financial instruments, such as revolving credit facilities, bank loans, trade finance, private placements and finance leases.

2. TEST AND REFINE

To implement your framework effectively, it is critical to get buy-in and support from internal parties as well as understand the influence and interest of market participants.

SET UP A MULTIDISCIPLINARY WORKING GROUP

To support the development and implementation of your framework, you can set up an internal working group involving relevant departments, such as finance, sustainability, strategy, risk, operations, legal, communications, compliance, sales and procurement. This can also help align the teams to drive and monitor sustainability performance in line with market practice and lender requirements.

GET BUY-IN FROM THE BOARD AND EXECUTIVE MANAGEMENT

As far as possible, engage key members of the board and executive management to get their support for the framework. You can explain the market trends and how sustainable finance aligns with the corporate strategy and brings benefit to the company.

RECOGNIZE THE EXPECTATIONS OF MARKET PARTICIPANTS

Investors, regulators and lenders have influence and interest in the development of the sustainable finance market. By recognizing their expectations for transparency, disclosure and reporting, you can better gauge their support for your framework and how they determine risk and return.

UPSKILL THE TREASURY TEAM

Up to now, you may have identified skills and knowledge gaps in sustainable finance within the treasury team. To address this, you can arrange training on sustainability and climate science concepts and principles, sustainability trends for financial markets, and the role of different market participants. You can also upskill the team on how to initiate change, influence others and manage projects effectively. Similarly, other departments, such as sustainability and communications, may require training on relevant treasury and finance concepts. This will help lay the groundwork for implementing your framework effectively.

SEEK ENDORSEMENT

After taking the above steps, you can finalize your framework and seek endorsement from an internal or external working group.

EXTERNAL REVIEW: PRE-ISSUANCE

International guiding principles recommend that you obtain an independent external review of your framework. For loans, self-certification by the borrower may be sufficient. For bonds, many stock exchanges require an independent external verification. Ideally, the results of this review should be made publicly available.

Independent external review of your sustainable finance framework is an essential tool and can be used to:

- Assess the alignment of the framework with the core components of the relevant internationally recognized guiding principles.
- Evaluate the relevance, robustness and reliability of KPIs and the rationale and level of ambition of proposed SPTs, including the benchmarks and baselines selected and the strategy outlined to achieve them.

3. IMPLEMENT

There are several core components to a sustainable finance framework, as outlined in internationally recognized guiding principles (see page on internationally recognized guiding principles) and summarized below. Your approach to each of these core components should be outlined in your sustainable finance framework and will guide the implementation and issuance of a sustainable financial instrument.

Use of proceeds

IDENTIFY PROJECTS

Identify projects that are eligible for financing based on the environmental/social objectives you have set under your framework. An eligible project should address specific environmental/social issues and lead to measurable environmental/social outcomes. For example, these may fall under the following categories: climate change adaptation, energy efficiency, biodiversity conservation, pollution prevention and control, or socioeconomic advancement. You can define and expand the types of projects within these categories over time. A full list of eligible projects can be found in internationally recognized guiding principles.

PROCESS FOR PROJECT EVALUATION AND SELECTION

The identified projects should be evaluated and selected for financing or refinancing based on the process you have established under your framework. If some or all of the proceeds are being used for refinancing, the proportion of estimated financing versus refinancing, details of the investments and/or projects, and the look-back period should be noted in your framework. Leverage your company's existing governance and management processes. Members of your executive management team may be involved at this stage to appraise the business value of the projects, with a focus on the environmental/social impacts. The value should be quantifiable, and the underlying methodology and assumptions agreed and documented.

MANAGEMENT OF PROCEEDS

Once the projects are selected, you should ensure that funds are properly allocated, used and tracked. Where possible, ringfence the funds before they are used. You can make use of the internal controls within your company and seek the support of internal audit to verify the tracking methodology and the allocation of funds. This will help maintain the transparency and integrity of your framework and sustainable financial instruments.

REPORTING

During the course of fund allocation, you should report on the use of net proceeds and the expected and actual impact of the projects on a regular basis. Any KPIs used should be verifiable and any standards or certifications to which your company is seeking to conform to should be disclosed.

EXTERNAL REVIEW

It is recommended that you obtain external verification of the tracking and allocation of funds in accordance with the management of proceeds. For bonds, many stock exchanges require an independent external verification. Ideally, external reviews should be made publicly available to the extent to which you report on the external review will depend on how confidential and commercially sensitive the information is.

Sustainability-linked

SELECTION OF KPIS

Select appropriate sustainability KPIs from your sustainable finance framework that are suitable for the sustainable financial instrument and align with your overarching strategy and any existing long-term sustainability targets. If possible, use KPIs that are financially material, are already being measured and reported on, are able to be benchmarked, and are already assured in annual or sustainability reports. Provide information about how the KPIs are calculated. Make sure that appropriate controls, processes and governance are established to gather the relevant KPI information. There is generally more flexibility in KPI choice for loans due to the more private nature of loans versus bonds.

DETERMINATION OF THE SPTS

Select one or more SPT for each KPI. The SPTs should demonstrate material and measurable improvements in the KPIs, and they should be ambitious and aligned with your company's overall strategy, with a clear timeline determined at the time of issuance. The SPTs provide the opportunity to develop short term milestones for your long-term ambitions. The targets should be benchmarked to your company's performance to date, peers and industry standards, and scientific or national/ international targets (such as the Paris Agreement, net zero or the SDGs).

The SPTs selected should be ambitious and credible, pushing your organization towards driving sustainable impact. Some investors remain sceptical of the impact being created by sustainability-linked financial instruments where issuers have not been ambitious enough. Issuers are coming under increasing scrutiny if they are deemed to have set SPTs that would have been achieved as part of their usual course of business.

UNDERSTANDING THE FINANCIAL IMPLICATIONS OF MEETING OR NOT MEETING THE SPTS

Prior to issuance, you should undertake forecasting to assess the financial impacts if the SPTs are met or not for the specific sustainable financial instrument. Details of how the financial and structural characteristics of the financial instrument will be affected by delivering or failing to delivery against the SPTs will be detailed in the financial instrument documentation. The most common change is a variation of the coupon rate.

REPORTING

You should ensure that you are accurately and regularly tracking the performance of the KPIs against the SPTs and periodically, at least annually, report on:

- KPI performance, including relevant baselines.
- SPT performance and impact on the instrument's financial and structural characteristics – this should include a verification/assurance report
- Any information that gives context to the level of ambition of your SPTs – for example, an update in your company's strategy.

VERIFICATION

Post-issuance verification/assurance of performance against each SPT for each KPI is a requirement, and the report should be made publicly available. This verification should be completed by a qualified external reviewer with relevant expertise and should be done at least annually and at the point of a trigger event.

Types of external review

There are broadly four levels of review for sustainable finance frameworks and their associated sustainable financial instruments.[44, 45]

1. Second party opinion – to assess the alignment of your framework or the administration of the sustainable financial instruments against internationally recognized guiding principles.

2. Verification – to evaluate the environmental/social features of the sustainable financial instrument against a designated set of criteria. For a use-of-proceeds approach, this may be verification of the underlying assets or assurance over the internal tracking methodology for use of proceeds, allocation of funds or reporting. For sustainability-linked bonds this is usually a verification of KPI performance or SPTs, and this is a requirement for sustainability-linked bonds and loans.

3. Certification – to certify, depending on your approach, the financial instrument, associated framework, and use of proceeds or KPIs/SPTs against a recognized external standard or label.

4. Rating – to assess, depending on your approach, the framework, associated instruments, and use of proceeds or KPIs/ SPTs against a scoring/rating methodology established by specialized ESG research providers or rating agencies.

4. BUILD MOMENTUM

Once your framework is developed and implemented, you can engage more widely with both internal and external stakeholders to build momentum, pool knowledge and drive further discussions on sustainable finance. This will help to establish your framework and treasury's role in driving change.

LAUNCH THE FRAMEWORK

A good way to engage key stakeholders and promote the framework may be through launching and promoting it at a suitable event. For example, an investor meeting, investor day or results presentation. If possible, the framework should be publicly available on your company website. This raises the profile of the framework and encourages transparency. The launch should also be promoted to staff, customers and clients to raise awareness.

KEEP TRACK OF INVESTOR APPETITE

Through your framework and sustainable financial instruments, the investor community will become more aware of your company's approach to sustainability and take an interest in future investment opportunities. You should engage with lenders and investors and keep track of their appetite for sustainable finance.

ENGAGE ACROSS THE BUSINESS

To identify new projects that may be eligible for sustainable finance and to fund the achievement of sustainable objectives of your company, you should continue to promote the framework across the business. Engage with relevant departments to develop further the use-of-proceeds approach and sustainability-linked approach as well as sustainability measuring and reporting practices. You may need to revisit or expand on definitions and assumptions made under the framework.

STAY ABREAST OF MARKET DEVELOPMENTS

There are policymakers, regulators and financial institutions that are actively involved in mainstreaming ESG risks and opportunities into market practices. You should stay abreast of developments in the following areas:

1. Guidance for sustainable financial instruments and frameworks, eg in the form of regulations, guidelines or listing requirements
2. New market infrastructure, eg specific segments, indices or benchmarks
3. Market discipline, eg disclosure requirements
4. Changes in regulation or approach that impact baselining for KPIs, eg changes in scope 3 assumptions will change a CO_2 baseline

CONNECT WITH YOUR PEERS

Connect with treasurers from your own and other sectors to share knowledge and experience of developing and implementing a sustainable finance framework. This will help you to establish treasury's strategic role in your company. You will also be more confident that you are maximizing the potential for your framework to support sustainable business decision making.

5. ENHANCE AND EXPAND

Sustainability issues are moving higher up the agenda at board meetings and global policy conferences. More sustainable financial instruments and services are becoming available. Take advantage of these developments to enhance your framework and be ready to capture emerging opportunities.

MAINTAIN FOCUS ON MATERIAL SUSTAINABILITY RISKS AND OPPORTUNITIES

While being aware of the development of sustainability issues globally, regionally and locally, maintain focus on the sustainability risks and opportunities that are material to your company. You may need to update your framework so that it remains adequate for addressing these risks and opportunities and for reporting on the corresponding impact.

ENHANCE INTERNAL PROCESSES AND REPORTING

Through the external review of your framework, you may identify areas for improvement in internal processes for monitoring proceeds and in reporting impact. Invest in enhancing these areas so that you can further expand your sustainable finance portfolio. You will also be better prepared to meet the disclosure requirements of new instruments.

BUILD TRACK RECORD

Over time, the investor community will have a better understanding of the impact of your projects and/or your delivery of KPIs against SPTs through your regular reporting and engagement. You will start to build a strong track record and reputation for your company in the sustainable finance market. Continue to interact with the market on the potential environmental and social projects for investment and the delivery of sustainability and transition KPIs and milestones. This will also demonstrate your company's long-term commitment to sustainability.

ALIGN WITH YOUR STRATEGY

The sustainable finance framework will have been developed in alignment with your strategy. Regular communication between the treasury, strategy and sustainability teams should be undertaken to ensure this alignment continues. The teams should work collaboratively, sharing market developments and updating the framework or strategy accordingly. As regulatory interventions continue on sustainability, there will be increasing pressure for all strategies and financial instruments to be sustainable.

ENHANCE YOUR FRAMEWORK

You may have started by issuing sustainable instruments to finance projects with measurable environmental or social benefits or by issuing one form of sustainability-linked financial instrument with associated KPIs and SPTs. At this point, you can enhance and expand your framework to enable the use of a variety of financial instruments to support your company's sustainability objectives, such as revolving credit facilities, bank loans, trade finance, private placements and finance leases. This can be expected to involve financing and refinancing a broad range of corporate activities and/or sustainable projects. Over time, your framework should drive all your corporate finance activities that support the transformation to a sustainable business.

INTERNATIONALLY RECOGNIZED GUIDING PRINCIPLES

ISSUED BY CLIMATE BONDS INITIATIVE:

- Climate Bonds Standard

ISSUED BY ICMA:

- Index of principles, guidelines and handbooks
- Green Bond Principles
- Social Bond Principles
- Sustainability Bond Guidelines
- Sustainability-Linked Bond Principles
- Climate Transition Finance Handbook
- Mapping to the Sustainable Development Goals: (1) Guidance (2) Excel file
- Guidance on other Sustainable Financial Instruments

ISSUED BY LOAN MARKET ASSOCIATION (LMA), ASIA PACIFIC LOAN MARKET ASSOCIATION (APLMA) AND LOAN SYNDICATIONS & TRADING ASSOCIATION (LSTA):

- Index of LSTA materials: LSTA Sustainable Lending Library
- Green Loan Principles
- Social Loan Principles
- Sustainability-Linked Loan Principles, includes example KPIs

ISSUED BY ASEAN CAPITAL MARKETS FORUM (ACMF), DEVELOPED IN COLLABORATION WITH THE ICMA AND BASED ON ICMA BOND PRINCIPLES:

- ASEAN Sustainability Bond Standards
- ASEAN Green Bond Standards
- ASEAN Social Bond Standards
- ASEAN SDG Bond Toolkit
- ASEAN Sustainability-linked Bond Standards

EXAMPLE FRAMEWORKS

This section includes the following sustainable finance frameworks for a range of different types of organization:

Use-of-proceeds

- Corporates
- Cities
- Financial institutions

Sustainability-linked

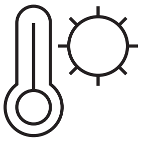
- Corporates
- Financial institutions

Combined use-of-proceeds and sustainability-linked

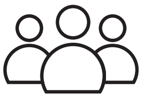
- Corporates
- Financial institutions

The frameworks cover a range of topics as outlined below:

Key



Climate. Activities that either have a positive impact or reduce negative impact on the climate, eg renewable energy, green buildings, energy efficiency.



Nature. Activities that restore or manage the natural environment and biodiversity in a sustainable way and / or reduce negative impacts on nature and biodiversity, eg marine pollution prevention, facilities and technologies for preserving or restoring natural landscape, sustainable water and wastewater management.

People. Activities that provide positive social results or reduce social challenges or inequalities, eg economic empowerment, affordable housing, pandemic response funding and access to essential services.

Use-of-proceeds sustainable finance frameworks

CORPORATES

Acciona

Development and management of infrastructure (Spain)

Green financing framework

Instruments: Various

Use of proceeds: EU Taxonomy Nomenclature of Economic Activities (NACE) macro-sectors of electricity supply; transportation and storage; water, sewerage; waste and remediation; construction; real estate activities

British Land

Property development and investment (UK)

Sustainable finance framework

Instruments: Sustainable, green and social finance

Use of proceeds: Renewable energy; energy efficiency; sustainable waste management; clean transportation; climate change adaptation; affordable basic infrastructure; affordable housing

Arla Foods

Food products (Denmark)

Sustainable financing framework

Instruments: Bonds, loans, revolving credit facilities and commercial papers

Use of proceeds: Energy efficiency; renewable energy, eco-efficient; circular economy adapted products; production technologies and processes; environmentally sustainable management of living natural resources and land use; sustainable water and wastewater management; green buildings; socio-economic advancement and empowerment and access to low-cost; high-nutrition products

General Motors

Automotive manufacture (US)

Sustainable finance framework

Instruments: Senior unsecured notes, securitizations; loans; commercial paper; retail deposits; convertible notes or other issuances

Use of proceeds: Clean transportation and socioeconomic advancement and empowerment

Click the boxes to see the frameworks

Japan Railway Construction Transport and Technology Agency (JRTT)

Transport (Japan)

Sustainability finance framework*

Instruments: Sustainability bonds, banks loans

Use of proceeds: Sustainable tourism; infrastructure, transport systems; climate change; marine life

*Only the statement by third-party assessment organization is available in English

Naver (South Korea)

Information and communications technology (South Korea)

Sustainable finance framework

Instruments: Bonds, loans and other debt-like financing structures

Use of proceeds: Energy efficiency; green buildings; renewable energy; sustainable water management; circular economy and design; clean transportation; digital literacy; COVID-19 crisis response; support for SMEs / start-ups; employment of women and youths

Majid Al Futtaim

Multiple industries including property, retail and leisure (United Arab Emirates)

Green finance framework

Instruments: Green sukuk

Use of proceeds: Green buildings; renewable energy; sustainable water management and energy efficiency projects

Agency ratings for Majid Al Futtaim bonds and credit

Green Finance Framework

*More information on Majid Al Futtaim, including its recent issuance of a sustainability-linked loan can be found on page 23 in A4S's collection of case studies from the Gulf Region

Philips

Health technology (The Netherlands)

Green sustainability innovation bond framework

Instruments: Green and sustainability innovation bonds

Use of proceeds: Expenditures related to green innovation in research and development; expenditures related to the implementation of circular products and solutions; expenditures under Philips' sustainable operations programs; expenditures related to sustainable innovation research and development contributing to financially sustainable care; expenditures regarding improving access to care for underserved communities

Shriram Transport Finance Co Limited

Commercial vehicle financing (India)

Social finance framework

Instruments: Social bond(s); loan(s); private placement(s); any other debt financing instruments

Use of proceeds: Employment generation including through micro, small and medium enterprise financing and microfinance

Swire Properties

Property developer (Hong Kong)

Green finance framework

Instruments: Green bonds and loans

Use of proceeds: Renewable energy, energy efficiency; sustainable water and wastewater management; climate change adaptation; green buildings

Smurfit Kappa

Packaging (Ireland)

Green finance framework

Instruments: Green bonds; green hybrid bonds; green commercial papers; green loans; green private placements; other types of debt instruments where the proceeds will be exclusively applied to finance or refinance, in part or in full, new and/or existing eligible green projects with clear environmental benefits

Use of proceeds: Circular economy adapted products, production technologies and processes and/or certified eco-efficient products and environmentally sustainable management of living natural resources and land use

Verizon

Communications (US)

Green financing framework

Instruments: Bonds or other instruments

Use of proceeds: Renewable energy; energy efficiency; green buildings; sustainable water management; biodiversity and conservation

Yorkshire Water

Water and wastewater utilities company (UK)

Sustainable finance framework

Instruments: Various, including (but not limited to) revolving and term debts from banks and institutional investors; green, social and sustainability bonds; private placements; and long funding finance leases

Use of proceeds: Affordable basic infrastructure; access to essential services; affordable housing; employment generation; food security and sustainable food systems; socioeconomic advancement and empowerment; 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 adaption; eco-efficient and/or circular economy adapted products, production techniques and processes; green buildings

CITIES

City of Vancouver

Local Authority (Canada)

Sustainability bond framework

Instruments: Green, social or sustainability bonds

Use of proceeds: Renewable energy; energy efficiency; green buildings; clean transportation; pollution prevention and control; sustainable water and wastewater management; environmentally sustainable management of living natural resources; climate change adaptation; affordable housing; access to affordable basic infrastructure and access to essential services

BMO Financial Group

Financial services (Canada)

Sustainable financing framework

Instruments: Social bonds, green bonds and sustainability bonds

Use of proceeds: Renewable energy; green buildings and infrastructure; energy efficiency; clean transportation; pollution prevention and control, sustainable water and wastewater management; sustainable management of living natural resources and sustainable land use; indigenous peoples' business and community lending; women-owned business lending; access to free or subsidized essential services and affordable housing

Caisse de dépôt et placement du Québec (CDPQ)

Investment group (Canada)

Green bond framework

Instruments: Green bonds

Use of proceeds: Renewable energy; clean transportation; energy efficiency; pollution prevention and control; sustainable water and wastewater management; forest, agricultural land and land management

*Further information on CDPQ's green bond framework can be found its case study as part of the A4S's Incentivizing Action Along the Value Chain guidance

Banco BTG Pactual

Financial services (Brazil)

Green, social and sustainable financing framework

Instruments: Loans and securities

Use of proceeds: Renewable energy; energy efficiency; sustainable water and wastewater management; clean transportation; green buildings; affordable housing; affordable basic infrastructure

Development Bank of Japan

Development Bank (Japan)

Sustainability bond framework

Instruments: Sustainability bonds

Use of proceeds: Green buildings; renewable energy; clean transportation; energy efficiency; employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crisis; affordable basic infrastructure; socioeconomic advancement and empowerment; affordable housing; access to essential healthcare services

Itaú Unibanco

Financial services (Brazil)

Sustainability finance framework

Instruments: Sustainability bonds or loans

Use of proceeds: Renewable energy and energy efficiency; clean transportation; sustainable water and wastewater management; pollution prevention and control; environmentally sustainable management of living natural resources and land use; green buildings; access to essential services; inclusive finance

Krungsri (part of Mitsubishi UFJ Financial Group)

Bank (Thailand)

Women bond framework

Instruments: Social bonds

Use of proceeds: Employment generation through women-owned SME financing and microfinance for women; socioeconomic advancement and empowerment through financing to women with low income, or disadvantaged female groups

Korea Development Bank (KDB)

Development bank (South Korea)

Instruments: Green, social and sustainability bonds

Use of proceeds: Renewable energy; clean transportation; energy efficiency; pollution prevention and control; sustainable water management and wastewater management; employment generation; social enterprises

QBE

Insurance (Australia)

Gender equality bond framework

Instruments: Social bonds

Use of proceeds: Investments in qualifying bonds. To qualify, the company issuing the bond must be a signatory of the United Nations Women's Empowerment Principles (UN WEP) and be recognized in the current Equileap Gender Equality Global Report and Ranking

SME Bank

Banking (Malaysia)

Sustainability sukuk framework

Instruments: Sustainability sukuk issuances

Use of proceeds: Renewable energy; clean transportation; green building, energy efficiency; sustainable water and wastewater management; waste and pollution control; affordable basic infrastructure; healthcare; education and vocational training; socioeconomic advancement and empowerment; pandemic outbreak socioeconomic impact mitigation

Sustainability-linked sustainable finance frameworks

CORPORATES

Enel

Manufacturer and distributor of gas (Italy)

Sustainability-linked financing framework

Instruments: Sustainability-linked bonds; sustainability-linked loans; sustainability-linked foreign exchange derivatives, sustainability-linked rates derivatives and sustainability-linked guarantees; SDG commercial paper programmes

KPIs: Scope 1 GHG emissions intensity relating to power generation; scopes 1 and 3 GHG emissions intensity relating to integrated power; absolute scope 3 GHG emissions relating to gas retail; renewable installed capacity percentage; proportion of CAPEX aligned to the EU Taxonomy

Natura Cosméticos S.A.

Cosmetics (Brazil)

Sustainability-linked bond framework

Instruments: Sustainability-linked bonds

KPIs: Scopes 1, 2 and 3 GHG emissions intensity; post-consumer recycled plastic used in plastic product packaging

JAPFA

Agri-food (Singapore)

Sustainability-linked financing framework

Instruments: Sustainability-linked bonds; sustainability-linked loans

Example KPI: Water recycling facilities for sustainable water and wastewater management at poultry operations

Ramsay Health Care

Healthcare (Australia)

Instrument: Sustainability-linked loan

KPIs: Mental health first aid training delivered; energy intensity; greenhouse gas emissions; total renewable energy projects developed; percentage of eligible suppliers with a satisfactory sustainability rating

Click the boxes to see the frameworks

Schneider Electric

Energy and digital (France)

Instruments: Sustainability-linked bonds; sustainability-linked convertible bonds; any other debt instruments whose financial characteristics are linked with sustainability performance targets

KPIs: Saved and avoided CO_2 emissions to our customers; gender diversity from hiring to front-line managers and leadership teams; number of underprivileged people trained in energy management

Suzano

Forestry, pulp and paper (Brazil)

Sustainability-linked securities framework

Instruments: Sustainability-linked securities

KPIs: Industrial water withdrawal intensity is measured by dividing the volume of water withdrawn for industrial operations, in cubic meters (m^3), by the total production of pulp and paper at the units, in tons (t); percent of women in leadership positions

SSE

Electric Utility (UK)

Sustainability-linked bond framework

Instruments: Sustainability-linked bonds

KPIs: Carbon intensity of electricity generated, renewable energy output and absolute scopes 1 and 2 GHG emissions

*More information on SSE and its green bond can be found on page 83 of the A4S Essential Guide to Debt Finance

Woolworths Group

Retail (Australia and New Zealand)

Sustainability-linked bond framework

Instruments: Sustainability-linked bonds

KPIs: Absolute GHG emissions (scopes 1 and 2)

Berlin Hyp AG

Real estate and mortgage bank (Germany)

Sustainability-linked bond framework

Instruments: Sustainability-linked bonds

KPIs: The carbon intensity reduction rate of its loan portfolio

Bank of China

Financial Institution (China)

Sustainability re-linked bond management statement

Instrument: Re-linked bonds

KPIs (selection): CO_2 emissions rate; ESG performance score

JAB Holdings

Investment company (Luxembourg)

Sustainability-linked bond framework

Instrument: Sustainability-linked bond

KPIs: Percentage reduction in tonnes of carbon dioxide equivalent (CO_2e); percentage of portfolio companies, by invested capital at fair value, that have set Science Based Targets Initiative approved targets; percentage of JAB's portfolio companies that have at least 30% female representation in their non-executive board of directors (ie excluding CEOs)

Combined use-of-proceeds and sustainability-linked sustainable finance frameworks

CORPORATES

Henkel

Chemical and consumer goods (Germany)

Sustainable finance framework

Instruments: Sustainability-linked bonds and green bonds

Use of proceeds: Circular economy; clean transportation; sustainable water and wastewater management; pollution prevention and control; energy efficiency; renewable energy; green buildings

KPIs: Scopes 1 and 2 GHG emissions per ton of product; scope 3 GHG emissions from purchased goods and services per ton of product; percentage of recycled plastics in all plastic packaging of consumer products

Stora Enso

Renewable materials company (Finland)

Sustainability-linked financing framework 2023

Instruments: Bonds, loans or Schuldschein*

Use of proceeds: Sustainable forest management; sustainable product processes; energy efficiency; renewable energy and waste to energy; sustainable water management; waste management and pollution control

KPIs: Scopes 1 and 2 GHG emissions, including CO_2 and other GHG emissions as defined in the GHG Protocol from the 2019 baseline; scope 3 GHG emissions, including CO_2 and other GHG emissions as defined in the GHG Protocol from the 2019 baseline; level of technically recyclable product; number of birch seedlings planted

*Unsecured medium to long long-term debt obligation typically governed by German law[46]

Vodafone

Telecommunications (UK)

Sustainable financing framework

Instruments: Green, social, sustainability and sustainability-linked funding instruments to finance or refinance projects enabling the company to meet its environmental and social objectives

Use of proceeds: Energy efficiency; onsite renewable energy; green buildings; circular economy, access to essential services; socioeconomic advancement and empowerment; employment generation

KPIs: Percentage reduction of CO_2e; avoided customer greenhouse gas emissions expressed in tonnes of CO_2e; percentage of women in management and senior leadership roles; millions of customers connected to mobile money services

Deutsche Bank

Multinational Investment Bank (Germany)

Sustainable finance framework

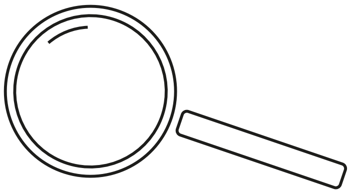
Instruments: Asset-based lending; corporate-level lending; trade finance as well as capital markets instruments including but not limited to all forms of certified sustainability-linked loans or sustainability-linked hedging or other instruments

Use of proceeds: Climate change mitigation; environmentally sustainable activities and socially sustainable activities

KPIs: Not specified in the framework, will be developed by group sustainability team

Further examples of sustainable finance frameworks and associated products can be found in the A4S Essential Guide to Debt Finance.

RESOURCES



Explore

A4S

- Debt Finance Maturity Map

BSI

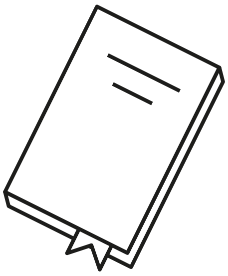
- Framework for embedding the principles of sustainable finance in financial services organizations

Climate Bonds Initiative

- Latest market information and resources

United Nations Global Compact

- Corporate Finance: A Roadmap to Mainstream SDG Investments
- SDG Bonds – Leveraging Capital Markets for the SDGs



Read

HSBC

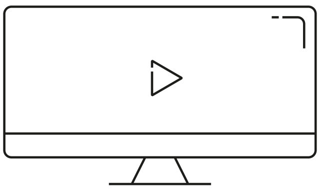
- HSBC Sustainable Financing and Investing Survey 2021

A4S

- A4S Essential Guide to Debt Finance
- A4S Essential Guide to Enhancing Investor Engagement

PIMCO

- Understanding Green, Social and Sustainability Bonds, PIMCO



Watch

A4S Webinars

- Debt Finance, May 2022
- Debt Finance, May 2021

Listen

ACT podcast

- Green Finance

GLOSSARY AND ACRONYMS

Term	Description
A4S	Accounting for Sustainability
ACMF	ASEAN Capital Markets Forum
ACT	Association of Corporate Treasurers
APLMA	Asia Pacific Loan Market Association
CFO	Chief Financial Officers
ESG	Environmental, social and governance. In this top tips guide we have typically used the term ESG when referring to risk management ie the impact of environmental, social and governance factors on an organization. We use the term sustainability in reference to the positive impact an organization can have on people and the planet.
GFANZ	Glasgow Financial Alliance for Net Zero
GHG	Greenhouse gas
Green bonds	Green bonds enable capital-raising and investment for new and existing projects with environmental benefits.[47]
Green loans	Any loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible green projects.[48]
Green projects	Projects which provide clear environmental benefits, a non-exhaustive list of categories can be found on page 3 of the APLMA, LMA and LSTA's Green Loan Principles.[49]
Greenium	Refers to pricing benefits based on the logic that investors are willing to pay extra or accept lower yields in exchange for sustainable impact.[50]
ICMA	International Capital Market Association
KPI	Key Performance Indicator
LMA	Loan Market Association
LSTA	Loan Syndications & Trading Association
SBTi	Science Based Targets initiative
SDGs	Sustainable Development Goals
SLB	Sustainability-Linked Bond
SMART	Specific, Measurable, Attainable, Relevant and Time bound
Social bonds	Social bonds are use of proceeds bonds that raise funds for new and existing projects with positive social outcomes.[51]
Social loan	Any form of loan instrument exclusively made available to finance or re-finance, in whole or in part, new and/or existing eligible social projects. Social projects should provide clear benefits of a social nature, which, where feasible, will be assessed, quantified, measured and reported by the borrower.[52]
Social projects	Projects which provide a clear social benefit, a non-exhaustive list of categories can be found on page 4 of the ICMA's Social Bond Principles.[53]
SPT	Sustainability Performance Target

Sustainability bonds	Sustainability bonds are bonds where the proceeds will be exclusively applied to finance or re-finance a combination of both Green and Social Projects.[54]
Sustainability-linked loans	Sustainability-linked loans are any types of loan instruments and/or contingent facilities (such as bonding lines, disclosure lines or letters of credit) which incentivize the borrower's achievement of ambitious, predetermined sustainability performance objectives. The borrower's sustainability performance is measured using SPTs. Sustainability-linked loans are commonly aligned in the market with the Sustainability-Linked Loan Principles.[55]
Sustainability-linked bonds	A forward-looking performance-based instrument. The bond's financial or structural characteristics (such as the coupon rate) are adjusted depending on the achievement of predefined sustainability targets. The adjustment can be in both directions, eg, an increase in coupon rate if targets are not met or a decrease in coupon rate if targets are met. The key difference with green/social/sustainability bonds is that the proceeds can be used for general corporate purposes.[56]
Transition bonds	Transition bonds are a subset of sustainable debt financial instruments whereby the issuer is raising funds in debt markets for climate and/or just transition-related purposes.
UN	United Nations

ABOUT ACCOUNTING FOR SUSTAINABILITY (A4S)

Our aim is to make sustainable business, business as usual.

HM King Charles III established A4S in 2004, when he was The Prince of Wales, with the aim of working with the finance and accounting community to:

- Inspire finance leaders to adopt sustainable and resilient business models
- Transform financial decision making to reflect the opportunities and risks posed by the climate crisis and other environmental and social issues
- Scale up action to transition to a sustainable economy

A4S has three global networks:

- Chief Financial Officers (CFO) Leadership Network – CFOs from leading organizations seeking to transform finance and accounting
- Accounting Bodies Network – members comprise approximately two thirds of the world's accountants
- Asset Owners Network – Pension Fund Chairs who integrate sustainability into investment decision making

Download the A4S Essential Guides

LEAD THE WAY

Developing a strategic response to macro sustainability trends

- Managing Future Uncertainty
- Engaging the Board and Executive Management
- Finance Culture
- Incentivizing Action

TRANSFORM YOUR DECISIONS

Integrating material sustainability factors into decision making

- Strategic Planning, Budgeting and Forecasting
- Management Information
- Capex

MEASURE WHAT MATTERS

Developing measurement and valuation tools

- Natural and Social Capital Accounting
- Social and Human Capital Accounting
- Valuations and Climate Change

ACCESS FINANCE

Engaging with finance providers on the drivers of sustainable value

- Enhancing Investor Engagement
- Debt Finance
- Implementing the TCFD Recommendations
- Implementing a Sustainable Finance Framework

Download the guides.

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A4S

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