

Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews

June 2022



2022 Guidelines for External Reviews

Introduction

The **Green Bond Principles (GBP)**, **Social Bond Principles (SBP)**, **Sustainability Bond Guidelines (SBG)** and **Sustainability-Linked Bond Principles (SLBP)** (collectively the “Principles”) recommend that in connection with the issuance of a Green, Social, Sustainability or Sustainability-Linked Bond or programme, issuers appoint external review provider(s) to confirm the alignment of their bond or bond programme with all the core components of the respective Principles.

These Guidelines for External Reviews aim to promote best practice. They complement the Principles and other existing relevant guidance such as the Assurance Framework for the Climate Bond Standard, Guidelines for the Conduct Assessment and Certification of Green Bonds (Interim) jointly issued by the People’s Bank of China and the China Securities Regulatory Commission, the draft Regulation on European green bonds in the EU, and the ASEAN Green Bond Standards. They provide voluntary guidance relating to professional and ethical standards for external reviewers, as well as to the organisation, content and disclosure for their reports. They have been developed as a common undertaking between the Executive Committee of the Principles in consultation with a group of leading external reviewers, with the support of the Advisory Council and ICMA Secretariat.

These voluntary Guidelines are a market-based initiative and aim to provide information and transparency on the external review processes for issuers, underwriters, investors and other stakeholders. They strive to represent a consensus view from all parties involved and will be updated periodically with feedback from external reviewers and consultations with the Principles’ member and observer community.

The February 2021 version of the Guidelines provided additional guidance especially for external reviews related to Sustainability-Linked Bonds. The provisions related to the content of external reviews were also moved into a dedicated section.

The June 2022 version of the Guidelines includes some provisions related to the **Climate Transition Finance Handbook**, which provides 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.





Types of External Reviews

There are a variety of ways for issuers to obtain external input to their green, social, sustainability and sustainability-linked bonds process and there are several levels and types of review that can be provided in the market. Independent external reviews may vary in scope and may address a green, social, sustainability and sustainability-linked bond framework/programme; an individual green, social, sustainability and sustainability-linked bond issue; and/or the underlying assets (in the case of specific Use of Proceeds bonds) and/or procedures. They are broadly grouped into the following types, with some providers offering more than one type of service, either separately or combined:

- 1. Second Party Opinion:** An institution with environmental/social/sustainability expertise that is independent from the issuer may provide a Second Party Opinion (either required or recommended pre-issuance as described in the respective Principles). The institution should be independent from the issuer's adviser for its Green, Social and Sustainability Bond and Sustainability-Linked Bond framework or climate transition strategy, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second Party Opinion. Any concerns on the institution's independence should be disclosed to investors.
- 2. Verification:** An issuer can (or "needs to" in the case of sustainability-linked bonds post issuance) obtain independent verification against a designated set of criteria, typically pertaining to environmental/social/sustainability or KPI performance and sustainability targets for the SLBs.
- 3. Certification:** An issuer can have its green, social, sustainability and sustainability-linked bond or associated green, social, sustainability and sustainability-linked bond framework or Use of Proceeds or Key Performance Indicators (KPIs) and Sustainability Performance targets (SPTs) certified against a recognised external green/social/sustainability standard or label. A standard or label defines

specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.

- 4. Green, Social, Sustainability and Sustainability-Linked Bond Scoring/Rating:** An issuer can have its green, social, sustainability and sustainability-linked bond associated framework or a key feature such as Use of Proceeds, selection of KPIs, calibration of the level of ambitiousness of SPTs, evaluated or assessed by third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology.

Ethical and Professional Standards for External Reviewers

In line with the definitions above, different types of firms can provide external reviews. Some of these firms' activities are explicitly covered by professional standards and/or regulation, such as accounting firms, accredited verifiers, and regulated credit rating agencies, while others are not. At a high level, all firms providing external reviews should be guided by the following five fundamental ethical and professional principles:

1. Integrity
2. Objectivity
3. Professional Competence and Due Care
4. Confidentiality
5. Professional Behaviour

Some external reviewers may already be subject to existing professional standards (e.g. professional accountants) and/or be subject to regulatory regimes, (e.g. accounting firms, accredited verifiers, regulated credit rating agencies) the elements of which already address many if not all of the aims of these voluntary Guidelines. Nevertheless, there are a variety

of assurance service professional standards and industry wide codes of conduct that external reviewers should look to adhere to, when relevant, when they provide services to green, social, sustainability and sustainability-linked bond issuers. For example, external reviewers should especially consider the relevance of the **International Code of Ethics for Professional Accountants** paying particular attention to section 4B – Independence for Assurance Engagements other than Audit and Review Engagements; the **Attestation Standards** established by the American Institute of Certified Public Accountants; **ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information**; **IESBA Handbook of the Code of Ethics of Professional Accountants, section 291 Independence - Other Assurance Engagements**; and the **AICPA Code of Professional Conduct (AICPA Code)**. Also applicable may be the standard provided by **ISO 17021** and **ISO 14065**, as well as certification from the **Association for Responsible Investment Services (ARISE)**.

Organisation of External Reviewers

While providing external reviews for green, social, sustainability and sustainability-linked bonds, external reviewers should ensure that they:

1. Have an organisational structure, working procedures, and other relevant systems for carrying out the external review.
2. Employ appropriate staff with the necessary experience and qualifications for the scope of the external review being provided.
3. If applicable, carry the appropriate professional indemnity/professional liability insurance cover.

External reviews should either include or indicate at a minimum where the following information may be available:

1. General description of the objective, scope of work, and the external reviewer's credentials.
2. The requisite credentials to evaluate KPIs, SPTs and related benchmarks, baselines and strategies for sustainability-linked bonds as well as the potential environmental and sustainability risks and impacts of the green and social bond principles categories.
3. Statement on independence and conflict-of-interest policy.
4. Definitions, analytical approach, and/or methodologies used.
5. Conclusions or output of the external review report including any limitations on the external review.



For a Second Party Opinion, external reviewers should have expertise in:

1. For use of proceeds bonds, the eligible green and social bond categories.
2. For sustainability-linked Bonds, the selected KPIs, SPTs, benchmarks, baselines, and strategies related to sustainability performance in the context of the issuer's business model.
3. Where appropriate, climate change strategy, governance and science-based trajectories.

The above may also be relevant for verification, certification, or green, social, sustainability or sustainability linked bond scoring/rating, depending on the methodology and standards being applied, which should be disclosed by the external reviewer.

Content of External Reviews

External reviews (either required or recommended pre-issuance as described in the respective Principles) may be complete or partial. Complete reviews assess alignment of a given issuance or framework with all core components of the relevant Principles. Partial reviews assess alignment of only certain limited aspects of a given an issuance or framework. Timing of an external review may depend on the nature of the review and publishing an external review can be constrained by business confidentiality requirements.

Depending on the type of external review, it is recommended that reviewers confirm alignment with all core components of the relevant Principles, and use the external review template available [on the sustainable finance webpages of ICMA's website](#) as a standard feature of their reports.

1. Second Party Opinion:

A Second Party Opinion entails an assessment of the alignment of the issuer's green, social, sustainability or sustainability-linked bond issuance/framework/programme with the relevant Principles. For these purposes, "alignment" should refer to all core components of the relevant Principles. In particular, a Second Party Opinion can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to environmental and/or social sustainability (if applicable).

For green, social and sustainability bonds, external reviewers should also assess:

1. The environmental and/or social features of the type of Projects intended for the Use of Proceeds.
2. The environmental and/or social benefits and impact

targeted by the eligible green and/or social projects financed by the green, social or sustainability bond.

3. The potentially material environmental and/or social risks associated with the projects (where relevant).

For sustainability-linked bonds (i.e., bonds with a general corporate use of proceeds), Second Party Opinions or other (typically pre-issuance) external reviews are recommended. The external reviewer is encouraged to assess:

1. The relevance, materiality and reliability of selected KPIs.
2. The rationale and level of ambition of the proposed SPTs.
3. The relevance and reliability of selected benchmarks and baselines, the credibility of the strategy outlined to achieve them, based on scenario analyses, where relevant.

Moreover, issuers are encouraged to seek independent and external review (such as an updated Second Party Opinion) to comment on their progress against baseline/benchmark, international targets and if such external benchmarking factors have changed after the adoption of the SLB Framework.

External reviewers should confirm whether there is a change in the financial and/or structural characteristics of the bond. If they make such an assessment, they should disclose their expertise. However, external reviewers may consider they do not have sufficient financial expertise to assess to what degree the variation in the financial characteristics of an SLB is commensurate and meaningful; in which case it is recommended they state so clearly in their Second Party Opinion.

2. Verification:

For green, social and sustainability bonds, verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from green, social and sustainability bond proceeds, statement of environmental and/or social impact or alignment of reporting with the Principles may also be termed verification.

For sustainability-linked bonds, post-issuance verification is a requirement of the SLBPs. Issuers are expected to seek independent and external verification (for example limited or reasonable assurance) of their performance level against each SPT for each KPI, at least once a year, and in any case for any date/period relevant for assessing the SPT performance leading to a potential adjustment of the sustainability-linked bonds' financial and/or structural characteristics, until after the last SPT trigger event of the bond has been reached.

3. Green, Social, Sustainability and Sustainability-Linked Bond Scoring/Rating:

The output of any external review may include a focus on environmental and/or social performance data or process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material environmental/social/sustainability risks.

Climate Transition Strategy

Where issuers wish to finance projects directed towards implementing a net zero emissions strategy aligned with the goals of the Paris Agreement, guidance on issuer level disclosures and climate transition strategies may be sought from the [Climate Transition Finance Handbook \(CTFH\)](#).

Second Party Opinion or verification can be considered for climate transition in connection with any use of proceeds or sustainability-linked bond issuance, in accordance with the four key elements of the CTFH.

In such cases, a Second Party Opinion or verification should include an assessment of the climate transition strategy and governance of the issuer, its business model environmental materiality, whether any forward-looking targets are “science-based” and the transparency of the issuer’s implementation plan.

Such an assessment should consider:

1. The alignment of both the long-term and short-term targets with the overall scenario and the credibility of the issuer’s strategy to reach the targets;
2. If appropriate, the materiality of the planned transition trajectory in the context of the issuers overall business;
3. The alignment of the issuer’s proposed trajectory with appropriate science-based trajectories¹ that are deemed necessary to limit climate change to targeted levels.

The assessment may also focus on assurance or on capital expenditure (capex) and operational expenditure (opex) plans and other relevant metrics to the extent related to the transition strategy.

Disclosure for External Reviews

The Principles recommend that external reviews be made publicly available on the bond issuer’s website and/or through any other accessible communication channel as appropriate before or at the time of the issuance. The external review template or a second party opinion should be made available online on [the Green, Social, Sustainability Bond and Sustainability-Linked Bond Database](#)². External reviews may also be made available in respect of previously issued bonds.

Issuers may wish to consider whether it is appropriate under applicable securities laws to identify the external reviewer in the offering disclosure for the bond.

Post issuance verification of sustainability-linked bonds should be made publicly available at least annually. At a minimum, such verification must be made available for any date/period relevant for assessing the SPT performance which could lead to a potential adjustment of the SLB financial and/or structural characteristics. This verification must be provided until after the last SPT trigger event of the bond has been reached. In this context, references to the frequency and availability of post-issuance verification should be included in the relevant SLB offering document (e.g. Terms and Conditions of the note).

Contributors

These Guidelines are voluntary and have been developed through a collaborative and consultative process with leading external reviewers. Please see [the Sustainable Finance webpages on ICMA’s Website](#) for a full list of contributing organisations as well as of those voluntarily aligning with these Guidelines.

¹ Recognised’ trajectories include but are not limited to: ‘Climate Positive’; ‘Net Zero 2050’; Paris Agreement ‘2-Degrees Scenario’; ‘1.5 Degrees Scenario’; [IEA Sustainable Development scenario](#) (as updated October 2020) and associated Transition Pathway Initiative benchmarks.

² At the request of the issuer or external reviewer, the opinion may be removed from the Database if it is deemed to be no longer valid or out of date.



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