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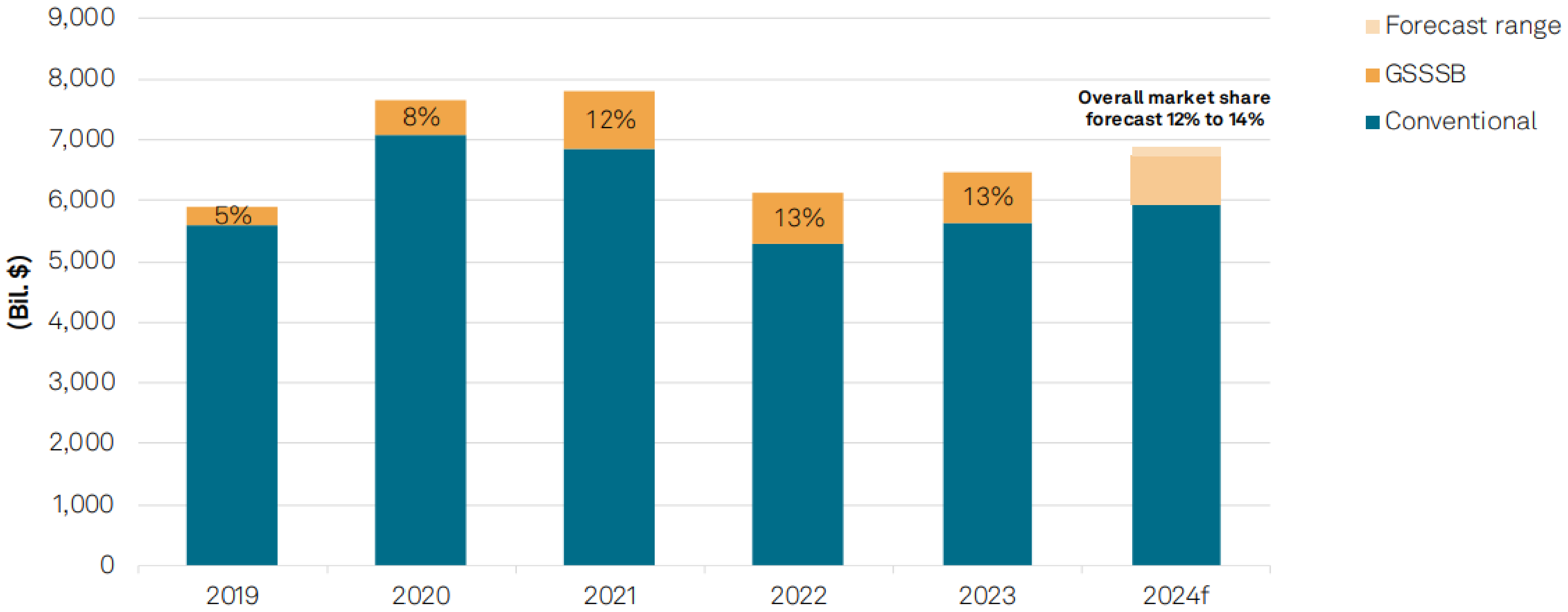
# Sustainable Bond issuance and overall market dynamics

- As of end-April 2024, the total outstanding volume of sustainable bond markets is USD4.2 trillion
- Since 2021, the share of sustainable bond issuance has been stable around 12-13% of global bond issuance each year

**Sustainability Insights | Research: Sustainable Bond Issuance To Approach $1 Trillion In 2024**

Chart 2

GSSSB share of global bond issuance may reach 14% in 2024




Excludes structured finance and sovereign issuance. f--S&P Global Ratings forecast. GSSSB--Green, social, sustainability, and sustainability-linked bonds. Sources: Environmental Finance Bond Database. S&P Global Ratings.
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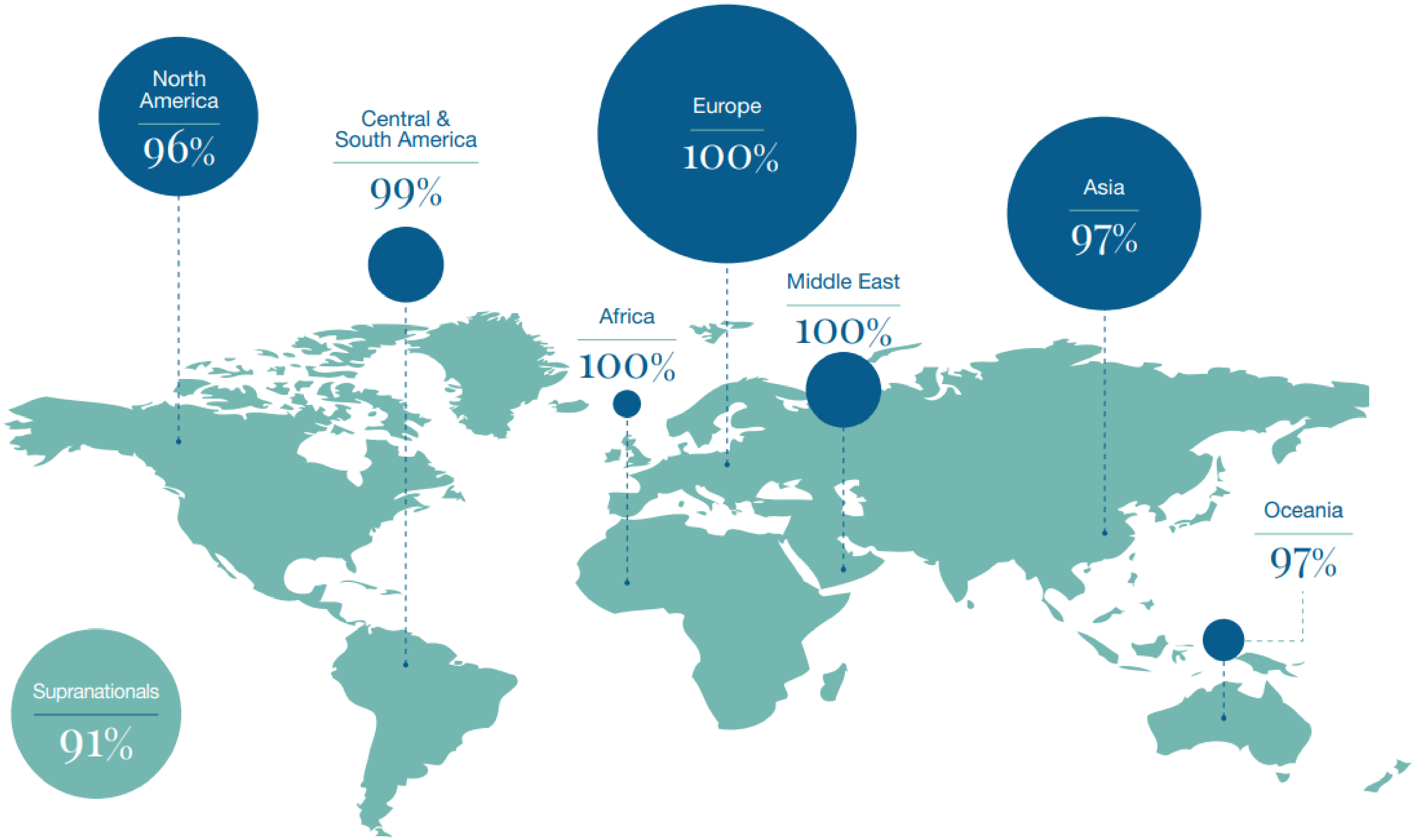
Source: S&P

# The Principles – Global standard for the Sustainable Bond Market

Percentage of sustainable bonds by region that were based on GBP, SBP, SBG, SLBP in 2023:

*Circle size is proportionate to total sustainable bond issuance by region*




ICMA analysis based on LGX DataHub and Bloomberg

# Overview of Principles

## The Principles

The Green Bond Principles | The Social Bond Principles | The Sustainability Bond Guidelines | The Sustainability-Linked Bond Principles

**Use of Proceeds***

Green, Social, Sustainability Bonds ("GSS" or "UoP")

**Core Components:**

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

**Key Recommendations:**

1. Green Bond Frameworks
2. External Reviews

**General Purposes***

Sustainability-Linked Bonds ("SLBs")

**Core Components:**

1. Selection of Key Performance Indicators (KPIs)
2. Calibration of Sustainability Performance Targets (SPTs)
3. Bond characteristics
4. Reporting
5. Verification

**Financial Instrument Guidance**

Climate Transition Finance

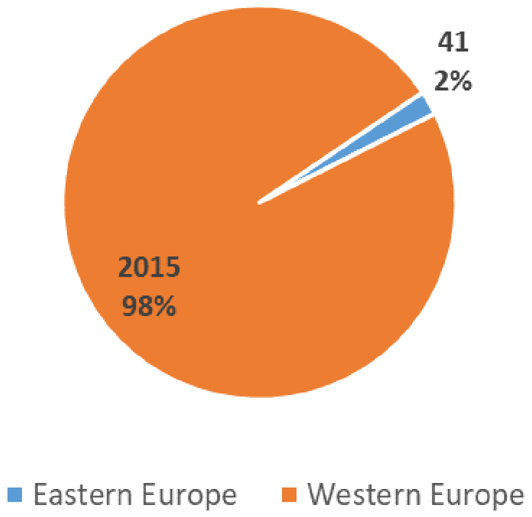
**Climate Transition Finance Handbook (CTFH)**

(Guidance may be applied to GSS/UoP Bonds or SLBs)

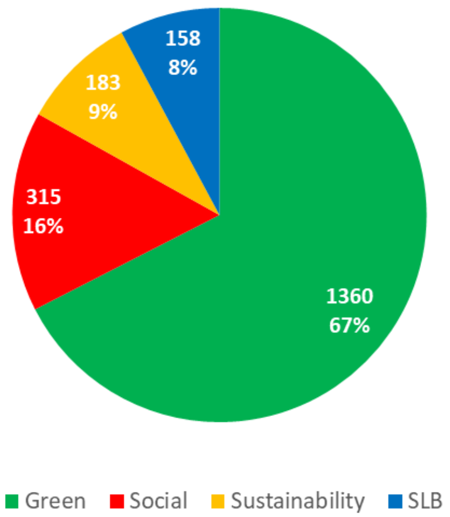
**Thematic Guidance**

# European sustainable bond issuance exceeds USD2 trillion

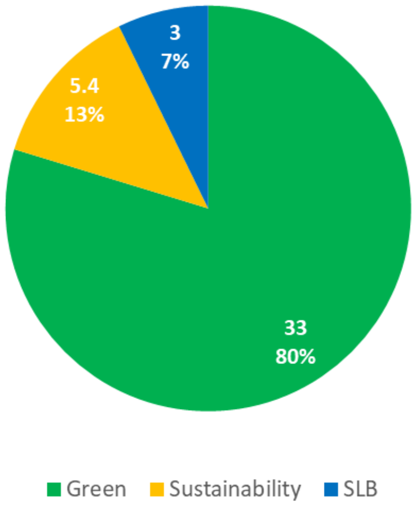
Breakdown of sustainable bond issuance in Europe (USD bn)




Sustainable bond issuance in Western Europe by type (USD bn)




Sustainable bond issuance in Eastern Europe by type (USD bn)




*Source: Bloomberg*

# Climate Transition Finance Handbook

ICMA
International Capital Market Association

## Key Elements of Climate Transition Finance Handbook

| 1. Issuer's climate transition strategy and governance | 2. Business model environmental materiality | 3. Climate transition strategy to be science-based | 4. Implementation transparency |
|---|---|---|---|
| The GSS financing should be directed toward enabling an issuer's GHG emission reduction strategy in alignment with the goals of the Paris Agreement. | The climate transition strategy should be relevant to the environmentally material parts of an issuer's business model. | An issuer's climate transition strategy should reference science-based targets and transition pathways. | Market communication should be transparent on the underlying investment program. |

## Sustainable Finance Solutions

**Green and Sustainability Bonds**
*Focus on projects*

**Type:** Use of proceeds (UoP)
**Guidance:** Green Bond Principles and Sustainability Bond Guidelines
**Projects**: projects that will make a meaningful contribution to an issuer's GHG emission reduction strategy. This can include environmental (green) projects that will make a direct contribution to an issuer's own GHG trajectory, and/or projects (including social) tied to a just transition.
**Additional resources:** See Annex 2 of the CTFH for Non-exhaustive list of wider official and market guidance for climate transition themed GSS Bonds

**Sustainability-linked bonds (SLBs)**
*Focus on the issuer's climate transition trajectory*

**Type:** General purpose with KPIs and SPTs at the issuer level
**Guidance:** Sustainability-linked Bond Principles
**KPIs and Sustainability Performance Targets (SPTs):** where one or more of the KPIs are monitoring GHG emission reduction metrics – either direct results (i.e., absolute/intensity GHG emissions metrics) or supportive proxies (i.e., metrics that act as levers to advance decarbonisation GHG emission reduction targets). Targets to be science-based.
**Additional resources:** See ICMA KPI Registry and Annex 2 of the CTFH for Non-exhaustive list of wider official and market guidance for climate transition themed GSS Bonds

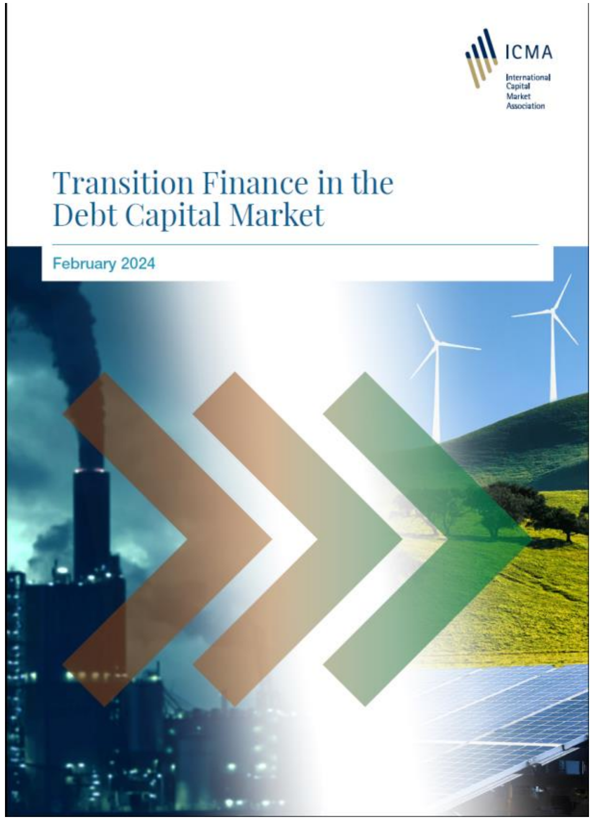
# CTFH 2023

- **2023 edition of the CTFH** integrates progress made by the market and the official sector on climate transition guidance and disclosures while aiming for clarity and user-friendliness. Includes dedicated recommendations for climate-themed green, sustainability and sustainability-linked bonds and new annexes with illustrative disclosures, infographics and list of wider market and official sector guidance for climate-themed bonds.

- Substantively, the **CTFH 2023** includes:
  - Just transition considerations and recommended independent oversight of transition plans
  - Specific reference to Scope 3 disclosures when material
  - More detail on science-based trajectories and the emissions reduction transition path including well below 2 degree scenarios at minimum
  - New details about carbon cost assumptions, phase out plans for carbon intensive activities and disclosure of any locked in emissions

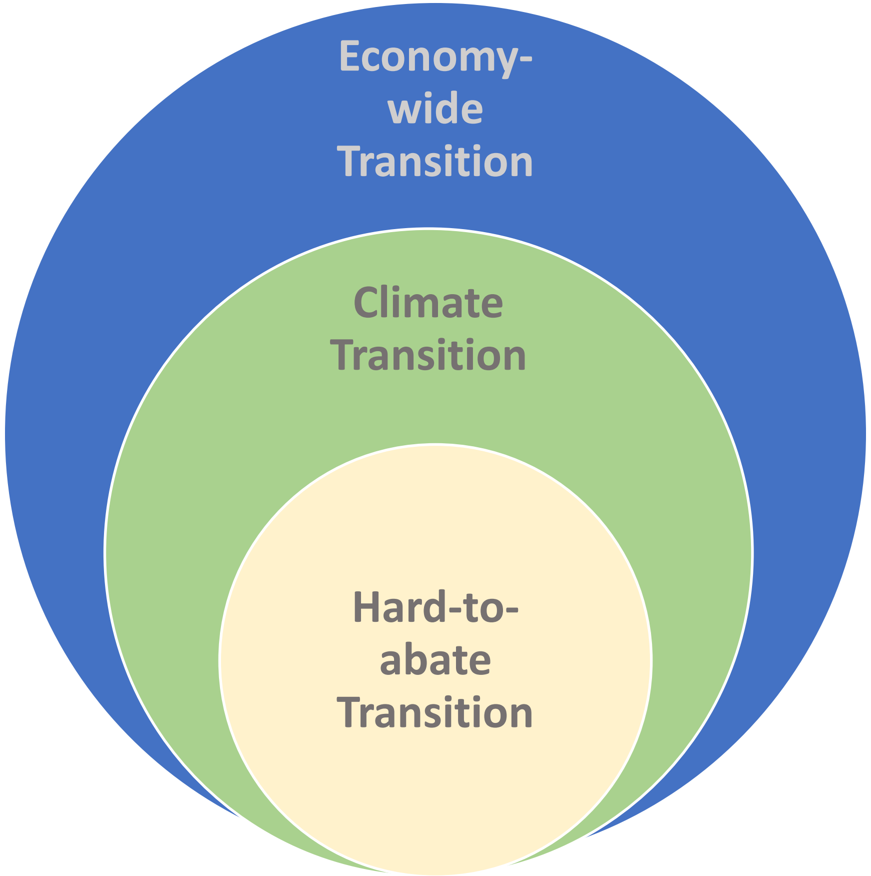
# ICMA paper on *Transition Finance in the Debt Capital Market*

- ICMA's thought-leadership paper Transition Finance in the Debt Capital Market reviews the latest guidance and recommendations on transition finance from both the market and the official sector.
- It unpacks transition finance into three overlapping definitions relating to economy-wide transition, climate transition, and hard-to-abate transition. Analysing the data, we confirm that the green and sustainability bond market has been largely dedicated to climate finance but is not a major resource for the transition of companies from the fossil fuel sector and the hard-to-abate industries notably because of "greenwashing" fears.
- New sustainability corporate reporting standards of the International Sustainability Standards Board (ISSB) and the European Sustainability Reporting Standards (ESRS) are an opportunity for the mainstreaming of transition plans and have the potential to unlock transition finance in the sustainable bond market.
- We argue for the voluntary adoption of transition plans by the market in anticipation of regulation and make available a model structure for integrated transition plans aligning with the CTFH, IFRS S2, ESRS E1, and the UK Transition Plan Taskforce recommendations.

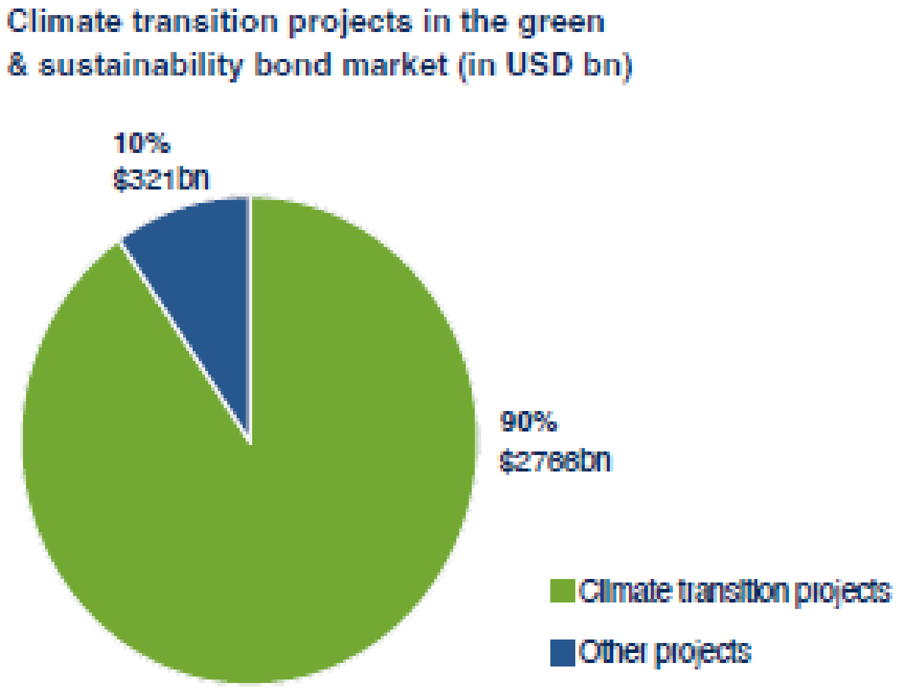


# Lenses of Transition

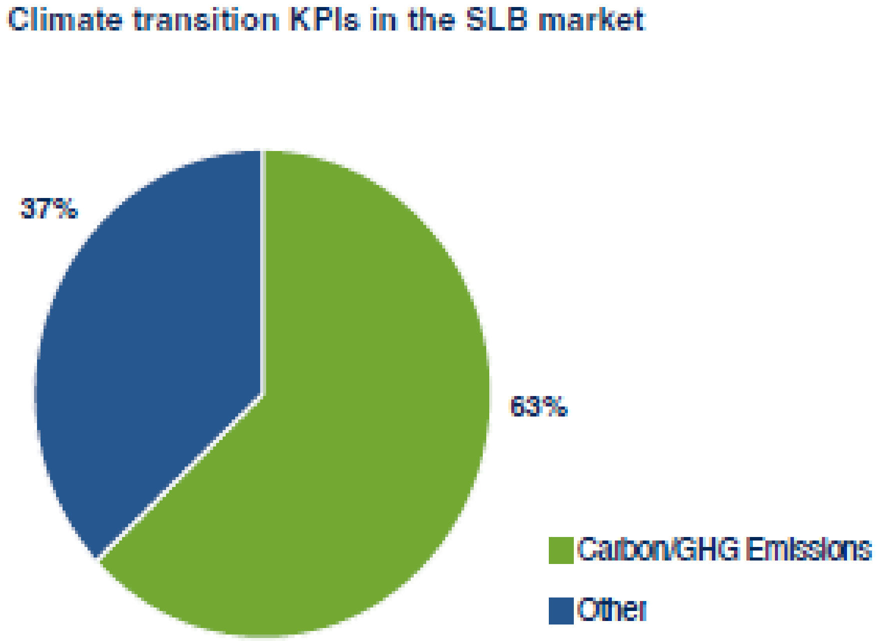
- **Economy-wide transition** refers to transformation of the entire economy with the objective of meeting the goals of the Paris Agreement but also wider sustainable objectives (e.g. biodiversity or circular economy) embedded in taxonomies, or with reference to the UN SDGs (see for example G20 Sustainable Finance Report).
- **Climate transition** covers the goals of the Paris Agreement and the target of achieving Net Zero but typically with a narrower sectoral or industry focus especially on the energy and high-emissions sectors (see the OECD Guidance on Transition Finance).
- **Hard-to-abate transition** emphasizes the specific challenges of reducing the emissions of the fossil fuel and hard-to-abate sectors, or promoting more sustainable alternatives to their output (see for example Japan's roadmaps for GHG-intensive industries).



# Climate transition financing in the Debt Capital Market

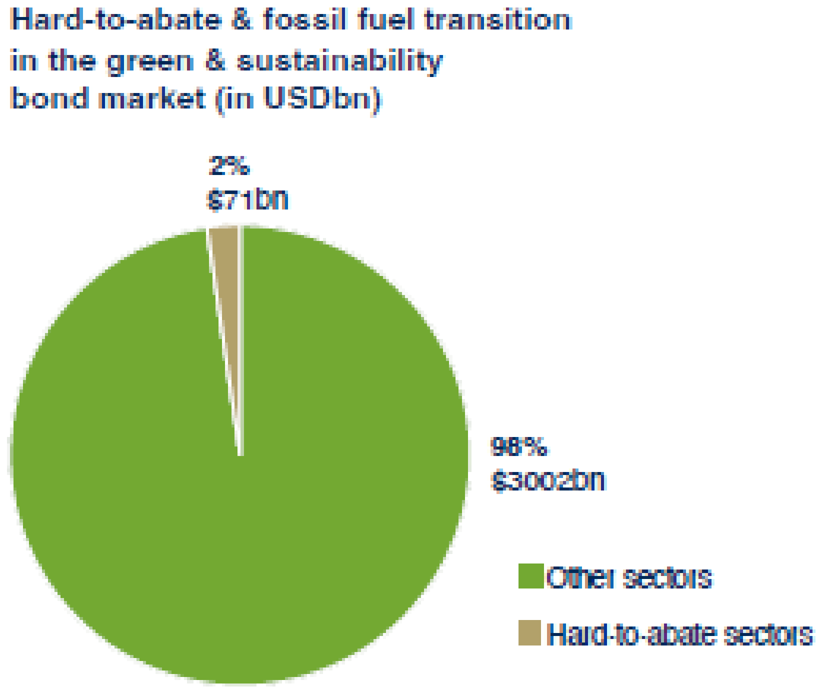



Source: Bloomberg




Source: Natwest (based on a tracked sample of large public transactions)

# Hard-to-abate financing in the Debt Capital Market

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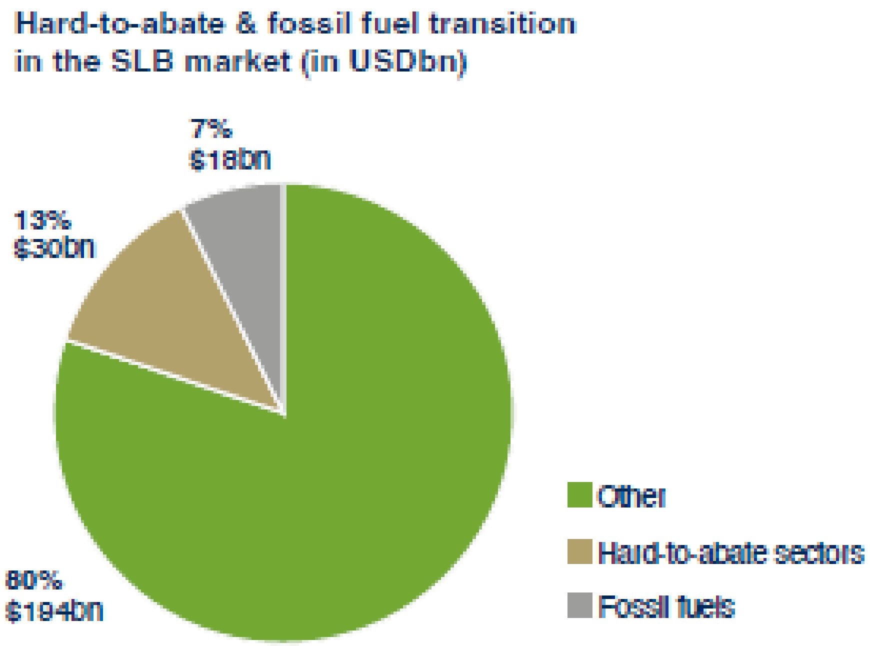
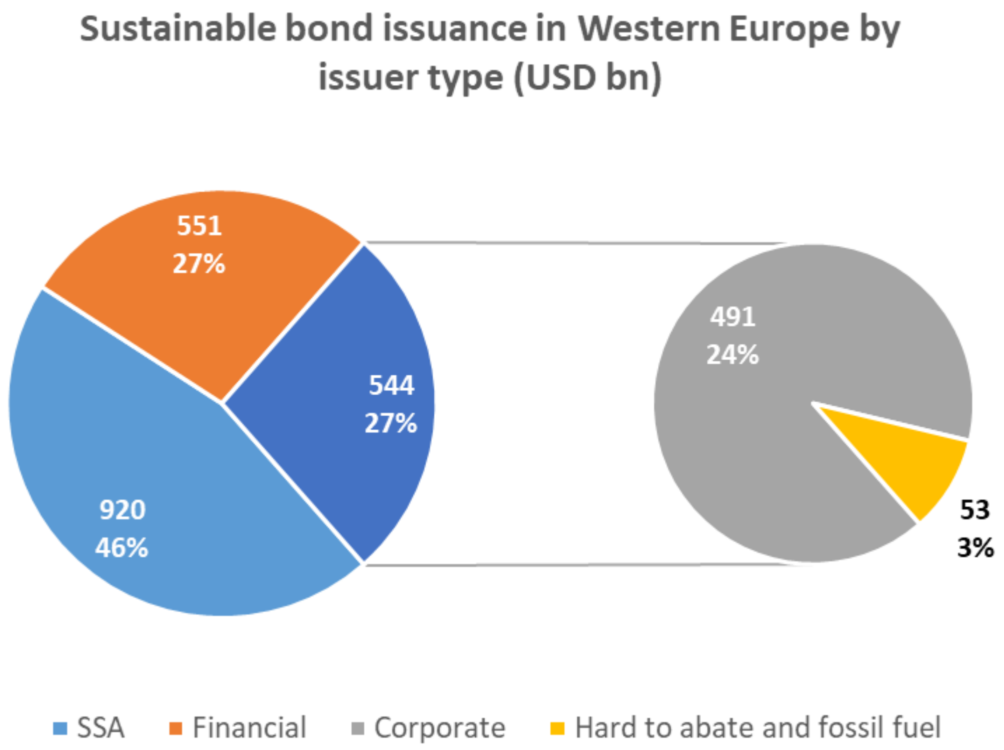
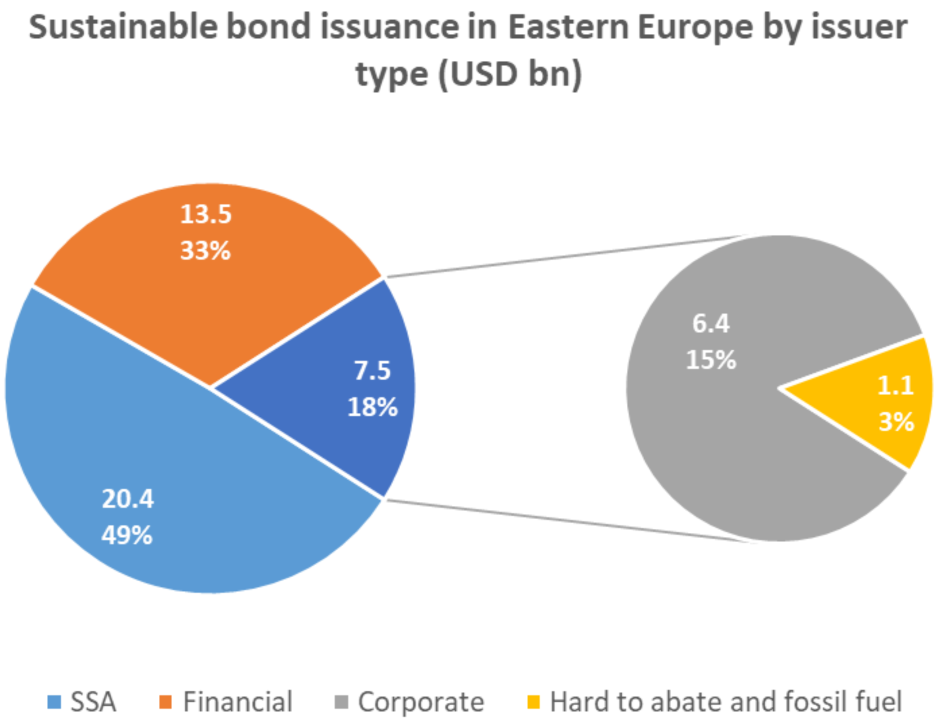



Source: Bloomberg

# Hard-to-abate financing in the Debt Capital Market: Eastern vs Western Europe




*Source: Bloomberg*



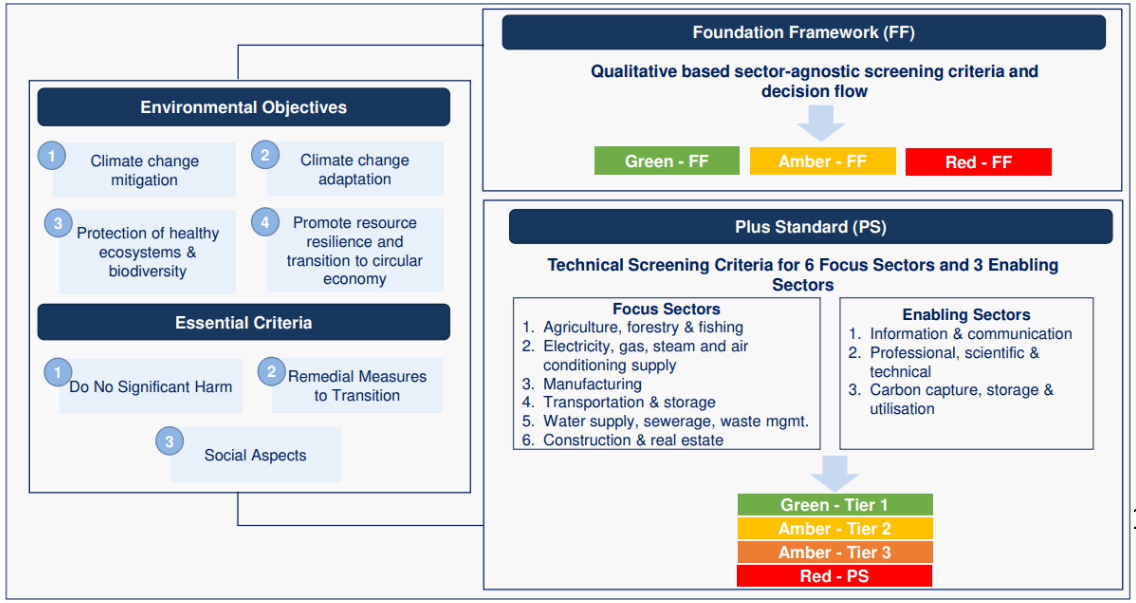

*Source: Bloomberg*

# Integrating transition in taxonomies

- The section categorises transition perspective in taxonomies as follows:
  - **Transition as an activity with an outcome**: the EU Taxonomy, the ISO Taxonomy
  - **Project and "whitelist" based approaches**: MDBs-IDFC Common Principles, China's Green Bond Endorsed Project Catalogue
  - **The traffic lights approach**: ASEAN
  - **Integrated approaches**: The CBI Taxonomy and Sector Criteria, the Singapore-Asia Taxonomy, the taxonomy proposal in Australia

EU Taxonomy

| Eligibility approaches | Transitional activity examples | Substantial Contribution criteria |
|---|---|---|
| **Quantitative thresholds with physical intensity metric1** | 3.7: Manufacturing of cement | "grey cement clinker where the specific GHG emissions are lower than **0,722 (100) tCO2e per tonne of grey cement clinker**" |
| **Quantitative thresholds embedding a pathway** | 6.7: Inland passenger water transport | "…where technologically and economically not feasible to comply with point (a), from 1 January 2026 onwards the yearly average GHG intensity of the energy used on-board … does not exceed the following limits: **76,4 g CO2e/MJ (01.12.2026 – 31.12.2029)**; **61,1 g CO2e/MJ (01.01.2030 – 31.12.2034)**; …; **15,3 g CO2e/MJ from (01.12.2045 – 31.12.2049)**; **0 g CO2e/MJ (from 1.12.2050.)**" |
| **Relative improvement** | 7.2: exist | |
| **Sunset date** | 4.29 gene fossi | |

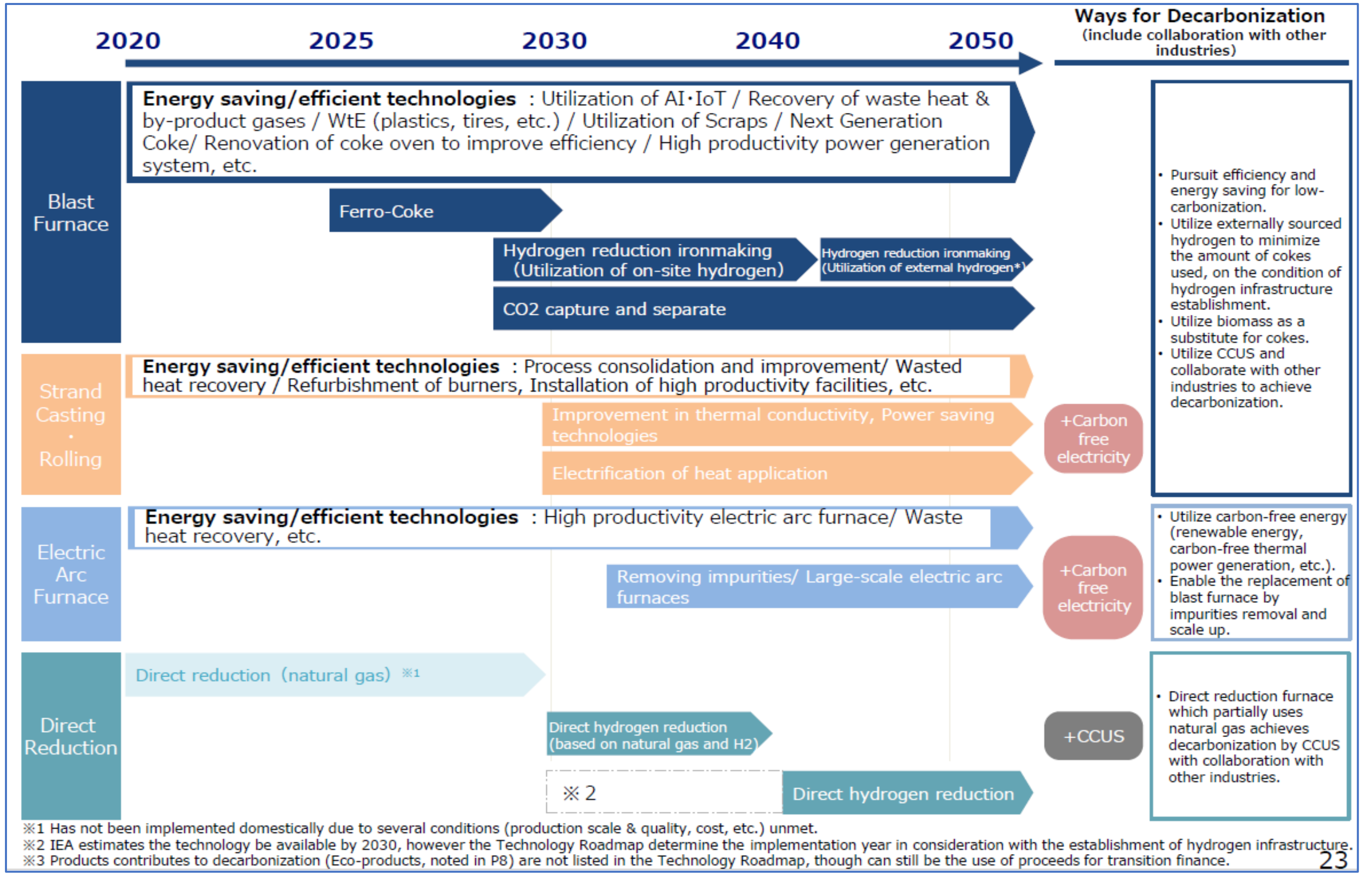



ASEAN Taxonomy

# Financing transition in hard-to-abate sectors

- **Pathways and roadmaps**: The lack of official sector-supported, sectoral roadmaps/pathways adjusted to different regions is a key challenge against transition finance. We highlight Japan's work on sectoral roadmaps, policy guidance in other jurisdictions (e.g. EU, UK), and the IEA scenarios which have served as the basis of certification schemes (e.g. SBTi, the TPI) aside direct referencing by sustainable bond issuers.
- **Transition as a managed phase out**: Importance of credibility safeguards and criteria for the integration of coal–phase out related activities in ASEAN and Singapore taxonomies for labelling.

Japan METI's Roadmap for Transition Finance in Iron and Steel Sector



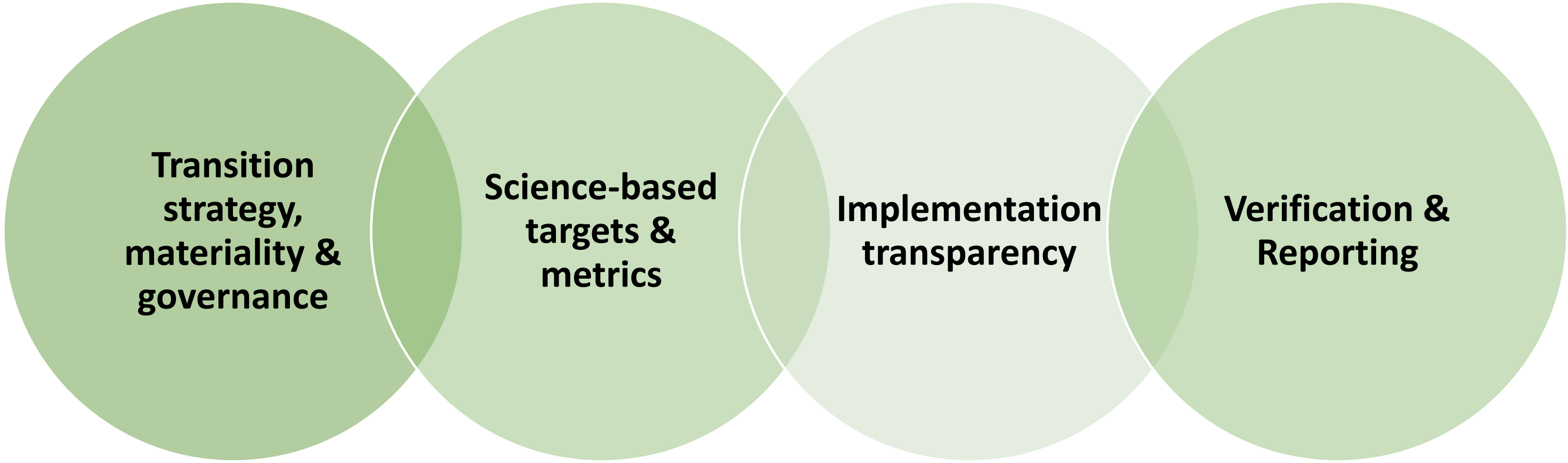
# From disclosures to transition plans

- **Requirement for transition plans**: Transition plans are currently disclosure requirements under the IFRS S2, ESRS E1, UK TPT frameworks. However, the EU's CSDDD will make it mandatory to adopt a transition plan for certain large EU and non-EU entities (including FIs) to adopt and implement transition plans compatible with 1.5C objective. Investor pressure may also lead to a "de-facto" requirement.
- **Achieving convergence**: Transition plan related requirements currently converge on the need for a strategic perspective and effective governance arrangements for implementation. There is however variation in the level of specificity, prescriptiveness, detail, structure, and the location for transition-related elements under IFRS S2, ESRS E1, UK TPT frameworks. The UK TPT's proposal stands out as the most focused and structured framework so far.

**Overview of the UK TPT Proposal**


Source: TPT Disclosure Framework – October 2023

# Proposed structure for integrated transition plan (under CTFH, IFRS S2, ESRS E1, and UK TPT)



# Key actions & disclosures for an integrated transition plan under CTFH, IFRS S2, ESRS E1, & UK TPT

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| Elements | Key actions & disclosures |
|---|---|
| **Transition strategy, materiality & governance** | • Adopt a Paris-aligned (ideally its 1.5°C objective) and quantitatively measurable climate transition strategy and targets using science-based pathways provided by recognised third-party sources, where they exist, and disclose methodologies and scenarios used, as well as any third-party certification.<br>• Ensure that climate transition strategy is relevant to the environmentally material parts of the business model.<br>• Ensure effective climate governance arrangements including senior management approval of the plan and accountability, remuneration/ incentive schemes linked to the transition strategy, and necessary skills and training across the organisation.<br>• Where relevant, consider "just transition" and disclose broader sustainability policies addressing negative sustainability impacts and trade-offs.<br>• Position transition plan as a standalone document sitting alongside financial reporting. |
| **Science-based targets & metrics** | • Disclose GHG emissions covering all material Scopes as formulated in absolute (gross $tCO_2e$), economic output (per net revenue), and industry-based metrics.<br>• Adopt and disclose absolute gross ($tCO_2e$), and where relevant, intensity-based targets for all material GHG Scopes. When only intensity targets set, disclose also the associated absolute values.<br>• Adopt short (ideally 3 years max.), medium, and long-term targets, and in any case for 2030, from which date baselines and targets should be updated every 5 years.<br>• There should not be any reliance on offsets except for residual (approx. 5-10%) emissions in net zero targets, in which case they should be disclosed separately and include credibility proof. |
| **Implementation transparency** | • Disclose all the relevant information on (i) planned changes to the business model, operations, products, as well as relevant policies and processes supporting those; (ii) actions for short (ideally 3-years max.), medium, and long term; (iii) planned investments, financial resources, and other financial metrics; (iv) internal carbon pricing; (v) engagement strategy and actions for value chains, with industry, public sector, and civil society.<br>• Provide a credible link between the various levers and the transition strategy and quantify the contribution from different levers to climate objectives at least on an estimated basis.<br>• Where relevant, disclose potential adverse sustainability impacts and mitigating actions and expenses (e.g. for "just transition"). |
| **Verification & reporting** | • Obtain an external review assessing the credibility of the entity's strategy, its alignment to the referenced science-based trajectories, and its climate governance alongside any potential jurisdictional requirement required for sustainability reporting (e.g., limited or reasonable assurance).<br>• Report annually quantitative and qualitative information on the progress against transition plans, targets, and metrics.<br>• Regularly update the transition plan (ideally every 3 years), and when there are significant changes. |

# Takeaways

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- **Transition finance is available but not yet where it may be most needed**
  - Considering climate transition holistically, the green and sustainability bond market has been largely dedicated to the financing of decarbonisation of energy, buildings, and transport sectors. Similarly, the new SLB market is squarely focused on climate transition with more than 63% of SLBs having a GHG reduction target
  - The greatest challenge of transition finance resides with the fossil fuel and the hard-to-abate industries as illustrated by the modest amounts raised to date by issuers from these sectors in the sustainable bond market
- **Issuers can aim to overcome reputational concerns with official and market guidance**
  - It remains indeed difficult for companies in the fossil fuel and the hard-to-abate industries sectors to raise transition finance because of a lack of consensus on acceptable and credible technologies and trajectories, and "greenwashing" fears for issuers and investors alike
  - Both official and market taxonomies integrating new approaches to incorporate transition and provide increasingly granular guidance to issuers. Several jurisdictions are also specifically publishing transition trajectories and roadmaps for the fossil fuel and hard-to-abate industries to provide an official reference for market participants on what can legitimately be financed
- **The voluntary adoption of standardised transition plans could unlock the market**
  - Transition plans can unlock transition finance by (i) providing strategic context to evaluate issuer level transition and sustainability commitments; (ii) helping issuers avoid controversy related to potential carbon lock-in risk in their individual projects and investments; and (iii) enhancing sustainability-linked bond target setting and KPI selection
  - Progress with ISSB and EFRAG does not signal the widespread availability of corporate transition plans. This may change through regulation (e.g. CSDDD). It would be preferable however to reach this goal earlier on a voluntary basis
  - ICMA has proposed a structure for an integrated transition plan synthesising the CTFH, IFRS S2, ESRS E1, and the UK TPT

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