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18 June 2020

Sustainable Bond Market (SBM)

1.0 Sustainable Finance at London Stock Exchange

London Stock Exchange offers dedicated services for sustainable financing across asset classes, covering fixed income and equities, including investment funds and ETFs. We were the first major exchange to launch a dedicated segment for green bonds and have since developed a broad sustainable debt offering covering primary and secondary markets.

More broadly, London Stock Exchange Group remains committed to developing tools and offering innovative solutions to meet issuer and investor needs to support the transition to a sustainable, low carbon economy.

The **Sustainable Bond Market (SBM)**¹ offers a comprehensive sustainable finance platform. It is designed to help issuers to meet investor demands for greater and more consistent disclosures and increase visibility of and access to the growing market for investing in the global sustainable economy.

As of May 2020, London Stock Exchange's SBM is home to over 230 bonds, many of which are 'world firsts' in terms of currency, geography or structure.



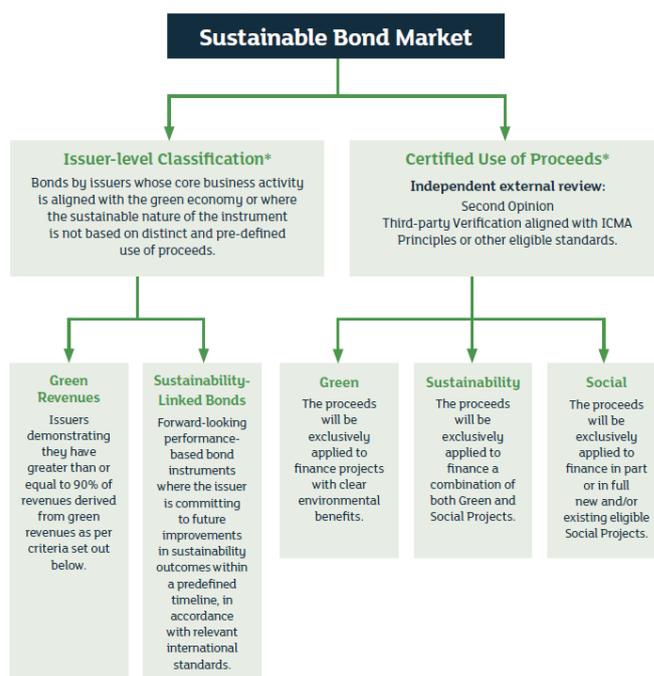
¹ Sustainable Bond Market (SBM) is not a distinct primary market operated by London Stock Exchange. It is a label applied across various segments of London Stock Exchange's existing primary markets in order to promote visibility of sustainable debt finance instruments.

2.0 Market Structure

London Stock Exchange's SBM is a comprehensive and flexible platform offering a wide range of opportunities for green, social and sustainability bonds. It is designed to support investors and companies as the need to manage climate risks and create impact becomes ever more important.

SBM offers distinct segments for different classifications of sustainable debt finance securities that provide investors visibility on the nature of instrument, issuer, use of proceeds and documentation.

The diagram below outlines the market structure and different routes to eligibility for admission to SBM. There are distinct segments for use-of-proceeds instruments such as green bonds, social bonds, sustainability bonds, and issuer-level classified bonds, based on objective criteria established by London Stock Exchange and detailed below.



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3.0 Benefits

3.1 Breadth of offering

SBM covers a full suite of asset classes and instrument types, ranging from plain vanilla bonds to more complex instruments such as asset-backed securities. Combined with expertise across LSEG in primary, secondary markets, data and post-trade services, SBM helps deliver the broadest sustainable finance platform to issuers and investors.

3.2 World class peer group

Display your bonds alongside high profile international issuances on SBM from supranationals, sovereigns, local governments and municipalities, as well as corporates, many of which are 'world firsts' in terms of currency, geography or structure, including the first certified green bonds out of the UK, China, India, the Middle East, Canada and first sovereign green bonds from Asia Pacific and the Americas.

3.3 International investor base

SBM delivers access to the largest, most sophisticated and long-term oriented investor base for sustainable finance, offering a uniquely deep pool of international liquidity. London Stock Exchange remains committed to active engagement with investors in order to support our markets with innovation and effective policies.

3.4 Enhanced visibility and international standards

Securities admitted to SBM are subject to international standards in order to enhance investor confidence in the level of disclosure related to their sustainability frameworks and reporting. SBM offers issuers the opportunity to display key documents such as external reviews, sustainability frameworks and annual sustainability reports on their dedicated profiles. Commitment to relevant annual reporting as outlined in Section 5.0 is required.

3.5 Flexibility

SBM offers dedicated segments for green, social, sustainability, and issuer-level classified bonds (including both Green Revenues eligible and Sustainability-Linked instruments). Bonds on SBM can be admitted to any of London Stock Exchange's fixed income primary markets. We also provide a range of secondary market trading functionalities so that issuers can offer investors appropriate liquidity and price discovery mechanisms.

3.6 LSEG offering and insights

London Stock Exchange Group (LSEG) provides guidance and support to issuers through a variety of channels, including the Issuer Services platform and other Group services. Sustainable bonds can also be traded through MTS, Europe's leading electronic trading platform for public sector debt. With nearly two decades of sustainable investment experience, global index, data and analytics provider FTSE Russell provides clients with sustainable investment data models, ratings, analytics, and indexes covering thousands of companies across developed and emerging markets globally. Indexes include FTSE4Good, FTSE Smart Sustainability, FTSE Green Revenues, FTSE Climate WGBI and FTSE ESG. LCH SA, one of the largest global Central Counterparties (CCPs) also supports sustainable bonds through eligibility for clearing and use as collateral.

4.0 How to Admit Bonds to SBM

Admission of securities to SBM is conditional on the following:

- **Listing or admission on one of the fixed income primary markets operated by London Stock Exchange;**
- **Submission of completed SBM Declaration and Application Form** (*mandatory from 1 January 2020*) which includes:
 - **Description of the classification of the securities being admitted:** use of proceeds certified (green, social or sustainability) or issuer-level classified (Green Revenues or Sustainability-Linked instruments);
 - **Disclosure of mandatory sustainability related documents** as applicable, such as an Independent External Review;
 - Acknowledgement and commitment to **ongoing post-issuance reporting obligations;**

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4.1 Listing or admission to a market operated by London Stock Exchange

The first step for any issuer wanting to admit bonds to SBM is to decide which fixed income primary market and trading service operated by London Stock Exchange would be most appropriate for the security based on the applicable regulatory regime and security structure / investor requirements. The Exchange operates the Main Market (Regulated Market), [International Securities Market \(ISM\)](#) and Professional Securities Market (Exchange Regulated Markets or "Multilateral Trading Facilities"). Trading services include OFIS, ORB or trade reporting only. Issuers can access any of these trading services whilst admitting bonds to SBM.

Any application to SBM would be conditional on the relevant admission criteria for the chosen fixed income primary market being met, in addition to any SBM eligibility criteria. More information on the fixed income primary markets operated by London Stock Exchange can be found at <https://www.lseg.com/debt-securities>.

4.2 Submission of SBM Declaration and Application form

From 1 January 2020, London Stock Exchange requires issuers who wish to be admitted to the SBM segment to complete the SBM Declaration and Application Form for admission of bonds to SBM. This includes:

4.2.1 Classification of securities

SBM offers issuers the choice between classifying bonds as use of proceeds certified (green, social or sustainability) or issuer-level classified (Green Revenues or Sustainability-Linked instruments). Each of these classifications have differing criteria as outlined in Section 5.0 below. It is the issuer's responsibility to ensure they are aware of the relevant criteria and declare that they comply accordingly.

4.2.2 Disclosure of mandatory sustainability related documents as applicable, such as an Independent External Review

To admit bonds to SBM, issuers are required to provide London Stock Exchange with the relevant supporting materials and documentation (as set out in Section 5.0 below) to allow the sustainable nature of the securities to be ascertained.

4.2.3 Acknowledgement and commitment to post-issuance reporting obligations

The Exchange has introduced mandatory annual post-issuance reporting requirements for all issuers who wish to admit to SBM, to demonstrate continued eligibility to SBM over the lifetime of the issuance in line with relevant principles.

5.0 Eligibility Criteria and Guidance

5.1 Use of Proceeds Classification

Distinct segments further enable investors to distinguish between different types of sustainable bonds, based on independently verified frameworks and use of proceeds. Within these categorisations, issuers can admit securities with more thematic uses of proceeds such as resilience bonds, blue bonds and Sustainable Development Goal (SDG) related bonds. However, in relation to green, social and sustainability bonds admitted to SBM, issuers will be required to provide London Stock Exchange with an acceptable external review which assesses the security's adherence to eligible relevant international principles (outlined in Sections 5.1.1 and 5.1.2). Annual post-issuance reporting will also be required for continued eligibility purposes.

Classification	Description of Use of Proceeds
Green Bond	Proceeds are used exclusively to finance green projects, or projects with clear environmental benefits.
Social Bond	Proceeds are used exclusively to finance eligible social projects as defined by the relevant international standards used.
Sustainability Bond	Proceeds are used exclusively to finance any combination of eligible green and social projects as defined by the relevant international standards used.

The Exchange can also review eligibility to the Use of Proceeds Classification segments without a formal external review in instances where there is sufficient supporting material to indicate that this is appropriate. Such supporting materials will need to have been submitted as part of an application and will be reviewed on a case by case basis. Please note that eligibility decisions to SBM are made solely at the discretion of London Stock Exchange.

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The Exchange also reserves the right to add bonds to the Use of Proceeds Classification segments without external verification in instances where the following criteria are met:

- Supranational issuer status with commitment to sustainability in the mission statement;
- If the Exchange determines that the bonds adhere to ICMA Green Bond Principles or Social Bond Principles;
- Commitment to ongoing reporting of Use of Proceeds; and
- Experience of previously having issued Green, Social or Sustainability bonds with certification.

Further, to ensure transparency, where bonds do not have external verification this will be highlighted for those bonds.

5.1.1 External Review Guidance

The Exchange requires issuers to provide proof of an external review of the securities from an independent third party reviewer at the time of application before any green, social or sustainable securities can be admitted to SBM, unless discretionary eligibility has been confirmed and granted as outlined in Section 5.1. This increases the confidence of investors in the robustness of market standards and provides additional visibility for those issuers admitting securities on SBM. For an external review to be valid, the third party conducting the review must be:

1. Independent of the entity issuing the bond;
2. Remunerated in a way that prevents any conflicts of interests arising; and
3. Specialised entity in assessing the framework of bonds' environmental or social objectives and providing an assessment of the use of proceeds. For example through:
 - a) affiliation with relevant and widely recognized industry bodies; or
 - b) significant and appropriate previous experience in providing external reviews on green bonds

External reviews can take the form of the following:

1. Consultant's Review / Second Opinion
2. Verification
3. Third Party certification
4. Green Bond Rating (separate from an issuer's overall ESG rating)

The Exchange reserves the right to request additional information related to use of proceeds if the information provided is deemed to be insufficient or unsatisfactory for any reason.

For more information and guidance on external verification of green, social and sustainable instruments please visit <https://www.icmagroup.org/green-social-and-sustainability-bonds/external-reviews/>.

5.1.2 Accepted International Standards

We have defined a list of international and regional principles and guidelines that are accepted for eligibility to SBM. These are outlined below:

- ICMA Green Bond Principles (as relevant)
- ICMA Social Bond Principles (as relevant)
- CBI Certification
- Sustainability Bond Guidelines
- EU Green Bond Standard
- PBoC's Green Bond Guidelines
- NDRC Guidelines (China)
- ASEAN Green Bond Standards
- Indonesian Green Bond Regulation

The Exchange reserves the right to update this list from time to time. Other international standards may be considered on a case by case basis, however eligibility decisions to SBM are made solely at the discretion of London Stock Exchange.

5.2 Issuer-Level Classification Segment

As more issuers choose to make sustainability central to their operations, we have seen an increase of companies deciding to issue all funding products within a single green or sustainable format.

To reflect this, issuers can utilise a new Issuer-Level Classified segment for bonds by issuers whose core business activity is aligned with the green economy or where the sustainable nature of the instrument is not based on distinct and pre-defined use of proceeds. This enables those businesses and 'pure-play' issuers that meet eligibility criteria to be able to admit bonds to SBM in a flexible way whilst benefitting from enhanced visibility. Within the Issuer-Level Classified segment we have the following sub-segments.

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Sub segment	Description
Green Revenues	Issuers demonstrating they have greater than or equal to 90% of revenues derived from green revenues as per criteria set out below
Sustainability-Linked Bonds	Forward-looking performance-based bond instruments where the issuer is committing to future improvements in sustainability outcomes within a predefined timeline, in accordance with relevant international standards.

The Exchange can also review eligibility to the Issuer-Level Classification segment on a case by case basis only when appropriate supporting materials have been submitted as part of an application. Please note that eligibility decisions to SBM are made solely at the discretion of London Stock Exchange

Green Revenues:

Issuers are eligible for admission to the Issuer-Level Classified segment by virtue of Green Revenue eligibility if they satisfy the following:

1. If an issuer is equity listed on a market operated by London Stock Exchange, they will be required to be Green Economy classified; and
2. Eligible issuers will be required to have a Green Revenue score of greater than or equal to **90%** at the time of application.

Setting a threshold of greater than or equal to 90% looks at issuers with a majority of their activities utilising green or clean technology to highlight those issuers with the highest standards of "greenness" across all industries, driving the transition to a sustainable, low carbon economy.

Issuers utilising financing subsidiaries for fixed income transactions under parent entities with a Green Revenue score of greater than or equal to 90% will also be eligible for the Issuer-Level Classified segment.

For more information on FTSE Russell Green Revenue and LSE Green Economy Mark methodologies, please see Sections 5.2.2 and 5.2.3.

5.2.1 Sustainability-Linked bonds:

Bonds are eligible for SBM's Issuer-Level Classified segment as Sustainability-Linked Bonds if they have been issued in accordance with the ICMA Sustainability-Linked Bond Principles (SLBPs). These can be found at <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf>.

As outlined in the ICMA SLBPs, disclosure shall incorporate the following elements:

- **Pre-issuance disclosure**
 - **General**

Issuers shall detail the rationale for SLB issuance and consistency with their overall Sustainability and Business strategy. Issuers should also outline the alignment with SLBP's five core components, including information on the use of external review types, publication dates and reviewer name.
 - **Selection of KPIs**

Issuers shall provide a description and definition of KPI(s), rationale behind the selection of KPI(s) (i.e. relevance with issuer's strategy, materiality), and detail historical externally verified KPI values covering at least the previous [3] years, where feasible. Where relevant, the verified baseline or reference point selected for improvement of KPIs shall be outlined, as well as the rationale for that baseline or reference point to be used (including date/period).
 - **Calibration of Sustainability Performance Targets (SPTs)**

Issuers shall provide a description and definition of SPT(s), including motivation for the outlined SPTs (i.e. ambition level, benchmarking approaches and consistency with overall strategic planning). The timelines for the target achievement, including the target observation date(s)/ period(s), shall be clearly defined, including the trigger event(s) and the frequency of SPTs. Any strategic information that would decisively impact the achievement of the SPTs should be outlined. Where feasible, SPTs should be science-based or benchmarked against an industry standard (e.g. consider SMART philosophy - specific, measurable, attainable, relevant and time-bound)). Issuers also shall summarise the means for achieving the target(s), where possible and taking competition and

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confidentiality considerations into account : i.e. how the issuers intend to reach such SPTs, e.g. by describing its ESG strategy and supporting ESG governance and investments, and its operating strategy, i.e. through highlighting the key levers / type of actions that are expected to drive the performance towards the SPTs as well as their expected respective contribution, in quantitative terms wherever possible. Any key other factors beyond the issuers' direct control that may affect the achievement of the target(s) shall also be taken into consideration.

- **Bond Characteristics**

Definitions of KPI(s) and SPT(s) (including calculation methodologies should be provided by issuers, including detailed descriptions of the potential variation of the SLB financial and/or structural characteristics of the bond and trigger criteria. If applicable, an explanation of the considered back-up mechanisms in case the SPTs cannot be calculated or observed satisfactorily should also be outlined. Additionally if applicable, language to take into consideration potential extreme / exceptional events (such as significant change in perimeters through material M&A activities or drastic changes in regulatory environment or extreme events) that could substantially impact the calculation of the KPI, the restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope should also be detailed.

- **Reporting Commitments**

Issuers shall provide a summary of location and frequency of reporting, intended scope and granularity, as well as commitment and disclosure of post-issuance external review (verification / assurance report).

- **External Review**

Pre-issuance external review is recommended but not necessary for SLBs. Any pre-issuance external review shall be published, such as a second party opinion, or if relevant a verification of baselines.

- **Post-issuance disclosure**

- **General**

Issuers shall provide reports and ex-post external review publication dates alongside the normal identification of the bonds: ISIN, amounts, currency,

maturity dates and relative KPI(s) & SPT(s). The scope of reporting (bond-by-bond, bond programme) and adherence to specific standards or regulations should be provided.

- **Reporting**

Issuers shall make available regular and easily accessible disclosure, at least annually, and in any case for any [date/period] relevant for assessing SPT performance leading to a potential adjustment of SLB financial and/or structural characteristic(s) of the bond. This should include:

1. Up-to-date information on the performance of the selected KPI(s), including baselines where relevant and

2. Any information enabling investors to monitor the level of ambition of the SPTs (e.g., any update in the issuers sustainability strategy or on the related KPI/ESG governance, and more generally any information relevant to the analysis of the KPIs and SPTs).

- **Verification**

Verification / Assurance reports are mandatory for post-issuance disclosure and shall detail performance relating to the verified SPTs in publicly available documents, outlining the performance against the SPTs and the related impact, and timing of such impact, on the bond financial and/or structural characteristics.

5.2.2 Green Economy Mark

London Stock Exchange's Green Economy classification and Mark is available to all equity issuers on all segments of the Main Market and AIM that meet the relevant criteria. It facilitates visibility by addressing the information gap around what constitutes commercial activity relating to environmental solutions. The 50%+ minimum threshold of Green Revenues for the Mark recognises businesses who have a material revenue contribution from the Green Economy.

For more detailed information regarding Green Economy classification and methodology, please visit the Green Economy Mark Factsheet, found [here](#).

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5.2.3 FTSE Russell Green Revenues

FTSE Russell's Green Revenues taxonomy is developed as part of the [FTSE Environmental Markets Classification System](#). It identifies industrial sectors and sub-sectors that are contributors to a greener, more sustainable economy such as climate change mitigation and adaptation, water, resource extraction, pollution and sustainable agriculture. London Stock Exchange obtains Green Revenues Data for London-listed issuers from FTSE Russell.

For more detailed information regarding FTSE Russell Green Revenue methodology, please visit the Green Economy Mark Factsheet, found [here](#).

5.3 Ongoing Eligibility and Minimum Standards for Post-Issuance Reporting

Issuers displaying bonds on SBM are required to comply not only with eligibility requirements at the time of admission, but also throughout the life of the bond in order to maintain eligibility for SBM on an ongoing basis.

5.3.1 Issuers admitting bonds to SBM must comply with mandatory annual post-issuance reporting requirements to demonstrate continued eligibility to SBM over the lifetime of the issuance. Issuers will be expected to submit supporting documentation or report on an annual basis that they have complied with this reporting requirement.

5.3.2 Where applicable, the form of ongoing reporting is at the issuer's discretion, however as a minimum London Stock Exchange requires an allocation report to be made available annually, with the first report available within 12 months from the date of issuance. Issuers are required to state the format their ongoing post-issuance reporting will take as part of the SBM Declaration and Application Form.

5.3.3 Issuer-level classified securities eligible under the FTSE Russell / Green Economy Mark are required to remain within a 10% band of the entry criteria on an ongoing basis to maintain eligibility to SBM.

5.3.4 Issuer-level classified securities classified as Sustainability-Linked Bonds are required to report on an ongoing basis with easily accessible disclosure, updated at least annually or in any case as frequently as the time period required for accurately assessing an issuer's performance in related to pre-defined KPIs, as outlined in the ICMA Sustainability-Linked Bond Principles.

5.3.5 Issuers utilising the Issuer-Level Classification route to eligibility based on London Stock Exchange's discretion may be required to submit supporting information for verification on an annual basis for London Stock Exchange to verify they still meet the appropriate standards on an ongoing basis. This will be agreed at the time of admission.

5.3.6 London Stock Exchange reserves the right to move bonds issued by issuers who do not comply with the ongoing requirements, for example on annual reporting, to a segment of SBM labelled "pending reporting" or to withdraw their inclusion in SBM.

For ICMA guidance on post-issuance reporting, please visit

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<https://www.icmagroup.org/green-social-and-sustainability-bonds/impact-reporting/>

- 5.3.7 The Exchange may, at its discretion, allow issuers that have qualified for admission to SBM to retain eligibility (at the sole discretion of London Stock Exchange) for an agreed period, should their compliance with ongoing eligibility requirements fall temporarily below requirements.
- 5.3.8 The removal of an issuer's securities from a SBM segment does not affect the admission to trading on of an issuer on any of the fixed income primary markets operated by London Stock Exchange – the issuer's securities will continue to be admitted to trading on the relevant fixed income primary market (i.e. Main Market) , however will cease to have their securities visible on the SBM platform as a sustainable debt finance instrument.

7.0 Contact

To find out more, contact the Fixed Income Team.

Telephone: +44 (0)207 797 3921
Email: bonds@lseg.com

6.0 Publication of Sustainability Related Documents

- 6.1 As part of the admission to SBM, issuers can request for key sustainability related disclosure documents, such as external reviews, frameworks and sustainability reports, to be made available on the London Stock Exchange website in order to provide easy access for investors.
- 6.2 In addition, bonds displayed on SBM are detailed on a dedicated section of London Stock Exchange's website whereby investors will have access to information regarding the classification of bonds in order to help them ascertain clearly what level of disclosure has been offered in relation to the issuance of such securities which will help inform their investment decisions.
- 6.3 Issuers with bonds admitted to SBM qualify for use of the Sustainable Bond Market roundel. This can be used on all promotional and marketing materials as appropriate for as long as they remain eligible for admission to SBM. Use of the roundel in this way signals to investors that the securities adhere to a robust standard of disclosure and internationally accepted principles. If the issuer ceases to qualify for SBM it must remove the roundel from any and all current marketing materials, online or offline.

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