Sustainability Bonds

'Use of Proceeds' bond to finance projects with positive environmental and social outcomes

What are 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.

As Sustainability Bond Structuring Agent, HSBC provides advice on the design of a sustainability bond framework, assists in the development of the ongoing program and supports a successful issuance.

Sustainability Bonds are similar to a normal corporate bond and should where possible, follow the **Green Bond Principles** (GBPs), **Social Bond Principles** (SBPs), and **Sustainability Bond Guidelines** (SBGs), with the GBPs being especially relevant to underlying Green Projects and the SBPs to underlying Social Projects.

The GBPs and SBPs promote integrity in the Sustainability Bond market through guidelines that recommend **transparency, disclosure and reporting**. They are intended for use by market participants and are designed to drive the provision of information needed to increase capital allocation to environmental and social projects.

The GBPs, SBPs and SBGs are **voluntary process guidelines** for issuing Sustainability Bonds. They provide issuers guidance on the **key components involved in launching a credible Sustainability Bond**; they aid investors by ensuring availability of information necessary to evaluate the environmental and social impact of their Sustainability Bond investments; and they assist underwriters by moving the market towards standard disclosures which will facilitate transactions.

Why use Sustainability Bonds?

Reputation:	Gain positive reputation and brand value around Environmental, Social and Corporate Governance (ESG).
Flat pricing:	The Sustainability Bond market has developed around the idea of flat pricing – where the bond price is the same as ordinary bonds. Prices are flat because the credit profile of Sustainability Bonds is the same as other bonds from the same issuers.
Finance your sustainability investment strategy:	Fund eligible green/social projects which contribute to the achievement of international environmental/social goals, including (but not limited to) the Paris Agreement, Sustainable Development Goals, EU environmental objectives etc.

What are the key benefits?

1 **Investor diversification:** Attract a broader investor base, with dedicated Sustainability Bond investors and Sustainability focused / Responsible Investment (RI) Investors who have perhaps not considered you before but would be interested in your Sustainability Bond.

2 **Demonstrate leadership in Sustainability:** Highlight the strength of your sustainability program to investors and improve your ESG scores.

3 **Potential for outperformance:** Pricing is in line with conventional bonds or slightly better. Sustainability Bonds are less volatile than non-sustainable bonds in times of stress.

How do Sustainability Bonds work?

Clients with a sufficient sized pool of eligible green and social assets consistent with a robust sustainability strategy are eligible:

Coverage

All sectors including Sovereigns, Supranationals and Agencies (SSA), Corporate, Financial Institutions Group (FIG) and all geographies can qualify.

Framework

Create a comprehensive Sustainability Bond Framework aligned with the SBPs, GBPs, SBGs (details below).

Review

Obtain an independent external review for your Sustainability Bond Framework.

Launch

Market and execute the transaction.

Reporting

Report annually on the allocation and impact of the bond.

To meet the GBPs, SBPs and SBGs requirements, the following four areas need to be addressed and disclosed in a publicly available Sustainability Bond Framework document:

1. **Identify use of proceeds:** Determine project categories from the suggested eligible environmental and social projects list (and identify a target population for social project categories).
2. **Process for project evaluation & selection:** Determine eligibility criteria, demonstrate evaluation & selection process, define the governance structure, the social objectives and exclusions.
3. **Management of proceeds:** Determine the method for allocation of funds from net bond proceeds.
4. **Reporting:** Commit to publicly report annually, at least until full allocation of funds and offer independent assurance of your reporting.

What are the eligible projects (indicative examples)?

Renewable energy, including storage & smart grids

Green buildings

Pollution prevention & control, including reduction of air emissions & greenhouse gas control

Eco-efficient &/or circular economy adapted products; production technologies & processes

Waste prevention, reduction, recycling; waste

Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport)

Energy effiency

Affordable housing

Clean transportation

Access to essential services (e.g. health, education and vocational training, healthcare, financing and financial services)

Sustainable water & wastewater management

Sustainable animal husbandry; climate smart farm inputs (e.g. crop protection)

How to find out more:

Please contact your HSBC Relationship Manager to find out more about the opportunities for Sustainability Bonds to support your business needs or visit business.hsbc.ca/sustainability

You can also see a detailed definition and explanation on the Sustainability Bonds Guidelines here: https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Sustainability-Bonds-Guidelines-June-2018-270520.pdf

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