FTSE Russell

Navigating Social and Sustainability Bonds

Driving the transition towards a sustainable and resilient future

July 2022

AUTHORS

Alan Meng
Sustainable Fixed Income Research Lead, Sustainable Investment Research
+44 0 747 140 7635
alan.meng@lseg.com

Lee Clements
Head of Sustainable Investment Solutions, Sustainable Investment Research
+44 0 207 797 3812
lee.clements@lseg.com

Lily Chung
Manager, Fixed Income and Multi Asset Product and Research
+886 2 8979 4856
lily.chung@lseg.com

Overview

The bond market, notably through social and sustainability bonds, plays a critical role in attracting and directing private capital to finance improved social and environmental outcomes towards 2030 Sustainable Development Goals. As social and sustainability bonds have entered the mainstream following the pandemic, our research paper reviews key developments, trends, and challenges for the social and sustainability bond market. This paper also introduces the methodology design of the FTSE Russell's Social and Sustainability Impact Bond Index series, which allows global debt investors to track this expanding market linked to positive environmental and social impacts.

Contents

Executive summary

As both public and private sectors grapple with the economic, health, and wider social impacts of the COVID-19 crisis, directing capital towards social and sustainable assets is pivotal but the gap in financing remains significant. According to the OECD's latest report on the Global Outlook on Financing for Sustainable Development[1], the required investment to achieve the 2030 Sustainable Development Goals (SDGs) could increase to USD 4.2 trillion per year from USD 2.5 trillion pre-COVID-19 crisis.

The bond market, notably through social and sustainability bonds, can play a critical role in attracting and directing private capital to finance improved social and environmental outcomes by 2030 and beyond. In this context, our research paper aims to help investors and other market participants better understand the development, trends, challenges and opportunities of the social and sustainability bond market. Specifically, this paper discusses:

The development of social and sustainability bonds (SSBs)

As of Q1 2022, cumulative issuance of social and sustainability bonds reached USD 882.7 billion, nearly one third of the USD 2.82 trillion worth of overall impact bonds issuance since 2007,[2] and continues to experience rapid growth. Issuers are likely to become further diversified paralleling development in the green bond market, however, public sector issuers will remain the cornerstone of the SSB market.

The evolution of SSB guidelines

Guidelines for issuers, either voluntary or mandatory, play an important role in underpinning the SSB market and promoting transparency and disclosure. The recommendations outlined by the International Capital Market Association (ICMA) Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG) currently represent the most widely accepted best practice. The ICMA framework is also a key tool for investors to identify credible social and sustainability bonds, as it is often difficult to quantitatively determine broader social and sustainability impacts.

Constructing credible SSB indices

This paper also introduces the methodology underpinning FTSE Russell's Social and Sustainability Impact Bond Index series, which allows global debt investors to track this rapidly growing market and generate positive environmental or social impacts. It is the first SSB index series to introduce ICMA-compliant validation at both issuance and post-issuance stages.

[1] OECD, Global Outlook on Financing for Sustainable Development 2021 : A New Way to Invest for People and Planet | OECD iLibrary (oecd-ilibrary.org).

[2] Data source: Refinitiv (an LSEG Business)

What are social and sustainability impact bonds (SSBs)?

Significant growth in the impact bonds market

The overall impact bonds universe, including green, social and sustainability bonds (GSSBs), as well as sustainability-linked bonds (SLBs), has grown exponentially over the past ten years. This strong momentum has been particularly fueled by a surge of social and sustainability bonds (SSBs) issued by both public and private sector issuers since the COVID crisis. The annual issuance of impact bonds surged past one trillion dollars in 2021, including over USD 388 billion in SSBs (Figure 1) - a notable milestone for a fixed income segment that did not exist a decade ago.

Cumulatively, the issuance of global impact bonds stood at USD 2.82 trillion as of the end of Q1 2022, with green bonds comprising the majority at USD 1.79 trillion (64%).[3] SSBs account for almost a third (31%) of the impact bond universe, and the USD 882.7 billion of cumulative issuance is made up of USD 416.9 billion worth of social bonds and USD 465.8 billion of sustainability bonds. The remaining 5% of the total is contributed by an emerging segment of SLBs, totaling USD 142.8 billion (Figure 2).

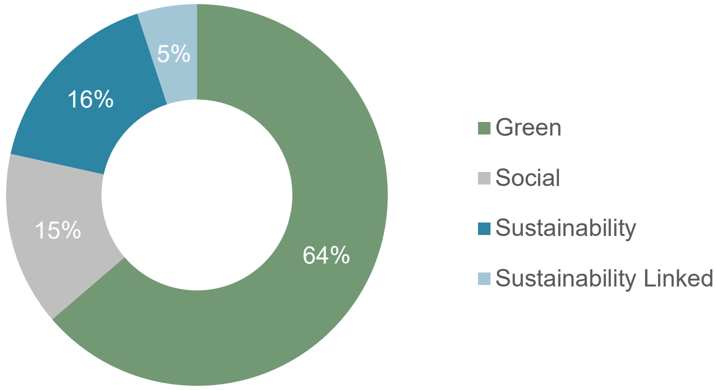
Figure 1. Year on year growth in global impact bonds issuance

Data source: Refinitiv.

Note: Amounts refer to historical annual issuance. The data includes self-labelled green, social, sustainability and sustainability-linked bonds, and the data cut-off date in this research is 31 March 2022, unless stated otherwise.

[3] The figures refer to the cumulative issuance amount rather than current outstanding amount to illustrate historical market development.

Figure 2. Shares of impact bonds (by cumulative issuance)



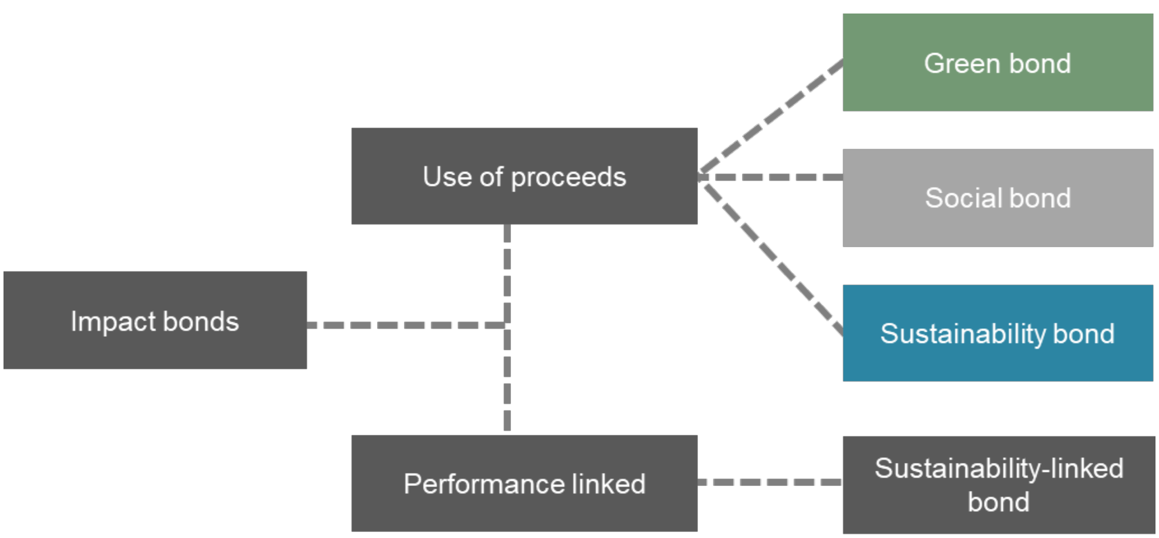
Data source: Refinitiv.

What is an impact bond?

Impact bonds differ from conventional bonds in that they aim for not just contractual financial returns, but also positive climate, environmental or social outcomes.

Based on the characteristics of proceeds allocations and bond structures, the impact bond universe can be grouped into 'use-of-proceeds' and 'performance-linked' types of bonds. Green bonds, social bonds and sustainability bonds (GSSBs) are normally categorized as 'use-of-proceeds' impact bonds, as their proceeds are usually earmarked and dedicated to specific green and/or social projects. In contrast, 'performance-linked' bonds normally raise funds for general corporate purposes (as opposed to earmarked projects), and their coupon payments are linked to one or multiple predetermined sustainability performance target(s). Figure 3 illustrates the classification of the impact bonds universe.

Figure 3. Classification of the impact bonds universe



Social bond definitions

The idea of using bonds to raise funds for social outcomes is far from new. Multilateral development institutions – which provide financing for economic development – have been particularly frequent users. For example, since the establishment of the International Finance Facility for Immunisation (IFFIm) in 2006, its series of 'Vaccine Bonds'[4] have helped raise billions of dollars for health and immunisation programs across 70 of the poorest countries in the world. Another example is the International Finance Corporation (IFC). In 2014, it expanded the breadth of its sustainability funding program from green to social themes with the creation of the 'Banking on Women Bond Program' and the 'Inclusive Business Bond Program'.[5]

The Spanish state-owned bank - Instituto de Crédito Oficial (ICO), however, is considered to have issued the world's first formally labelled social bond in 2015. Although there were no specific guidelines for social bonds at the time, the EUR 1 billion offering reflected all the key elements subsequently highlighted as good issuing practice by the ICMA Social Bond Principles. For example, ICO established a social bond framework carrying a second party opinion (from Sustainalytics), and disclosed specific details on the use of proceeds, management of proceeds, and its reporting commitments.

***Social bonds** describe any type of bond instrument for which the net proceeds are exclusively used to finance or re-finance projects and/or assets that can deliver positive social impacts.*

Social impact bond – a definition that varies by context

The terminology 'social impact bond' has different meanings. Sometimes it refers to a 'commissioning contract' with the public sector (e.g. municipalities or other governing authorities), and the acronym 'SIB' is normally used to differentiate it from a fixed income instrument. In a SIB contract, the social service provider (such as a healthcare provider or a prison), who is commissioned by the government, receives upfront funding from SIB investors to deliver certain public services. SIB investors receive the government's payback of initial capital, and the additional return on investment that is contingent upon the achievement of desired social outcomes.

Hence, SIB refers to a type of government's public services purchase contact, rather than a bond per se. We do not consider SIBs to fall under the sustainable fixed income umbrella and they should be considered as separate from the 'social bond' discussed in this paper.

Sustainability bond definitions

The Île-de-France Region of France was the first to issue a sustainable bond in a public offering in 2012. The transaction aimed at financing a wide range of social and green projects laid out in the framework, including construction and renovation of schools, public transport, social housing, and economic and socially inclusive development as well as clean energy projects.

***Sustainability bonds** are defined as any type of bond instrument where the net proceeds are exclusively used to finance or re-finance a combination of green and social projects.*

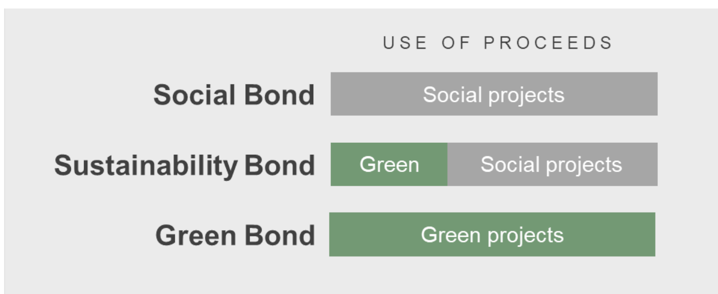
[4] International Finance Facility for Immunisation, [Vaccine Bonds | International Finance Facility for Immunisation (IFFIm).]()

[5] International Finance Corporation, [Social Bond Program.]()

Differences between a social bond and a sustainability bond

Social bonds and sustainability bonds are both use-of-proceeds type of impact bonds, but they differ in the allocation of proceeds. A social bond is normally used to finance purely social projects (such as healthcare, education and/or gender equality), while proceeds raised by a sustainability bond can be allocated to a combination of social and green projects, or projects delivering co-benefits. These differences are also reflected in specific characteristics such as the bond label – the wording that an issuer uses in the bond prospectus, final terms or a second party opinion (SPO) report to claim the green, social or sustainable feature of the offerings. Social bond issuers tend to name transactions based on the social impacts they aim to achieve – for example ‘Poverty Alleviation Bond’, or ‘Social Housing Bond’. Transaction names like ‘Sustainability bonds’, ‘SDG Bond’, or ‘ESG Bond’ normally indicate the multi-purpose feature that a sustainability bond carries. Figure 4 illustrates the connections between social and sustainable bonds.

Figure 4. The key differences between a social bond and a sustainability bond

	Social Bond	Sustainability Bond
Use of proceeds	Dedicated to social projects	A combination of social and green projects, or projects with prominent dual benefits.
		
Examples of bond labelling*	Social Bond	Sustainability Bond
	Social Impact Bond	Sustainable Development Goals Bond
	Social Housing Bond	Sustainability Awareness Bond
	Pandemic Bond	ESG Bond
	Women Bond	
	Poverty Alleviation Bond	
	Healthcare Bond	
	Equality Bond	
	Vaccine Bond	

*Sustainability or ESG related labelling of a bond refers to the wording that an issuer uses in prospectus, bond terms, and/or SPO report to indicate the sustainability features of the bond. The form of bond labels varies, and the list contains the most common examples.

Social and sustainability bonds entered the mainstream on the back of pandemic crisis

The surge of social and sustainability bonds has been primarily driven and accelerated by the need for finance in a COVID-stricken world grappling for sanitary and economic recovery. For example, the total amount of social bonds issued in 2020 – when the world was hit by the pandemic – was almost eight times the previous year's record, and the volume of sustainability bonds also doubled in that year (Figure 5).

Supranationals are the largest source of sustainability bonds (Figure 6). The International Bank for Reconstruction and Development (IBRD, a World Bank Group member), is the largest sustainability bonds issuer of all time. Over USD 154 billion of its Sustainable Development Bonds are aligned to the ICMA Sustainability Bonds Guidelines to serve the twin goals of ending extreme poverty and promoting shared prosperity.

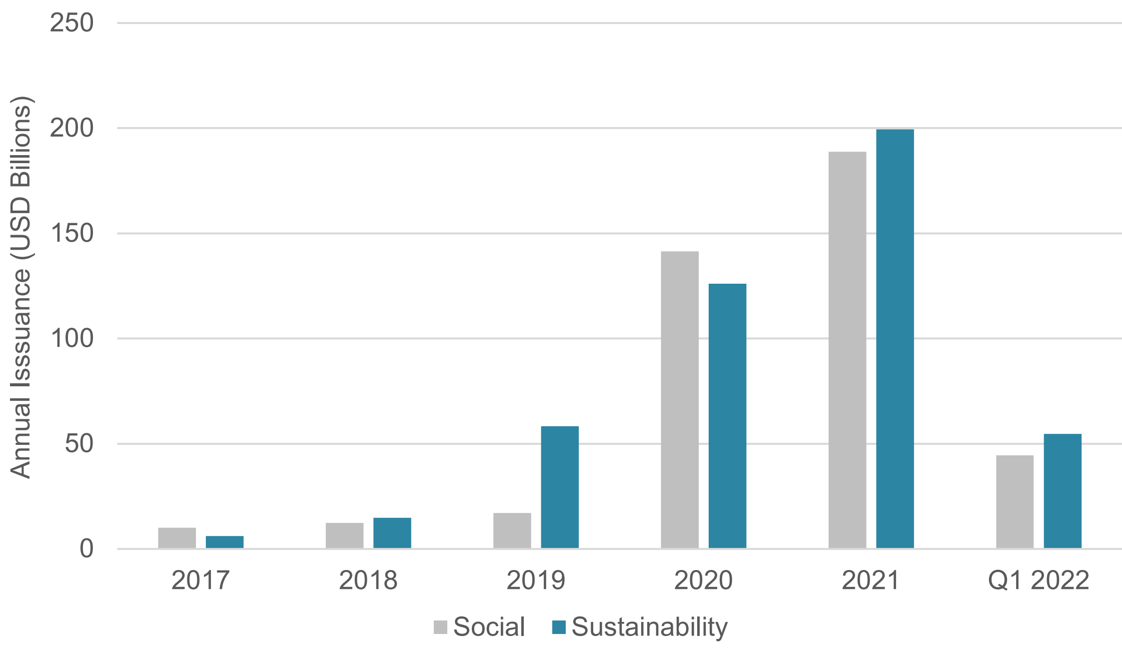
The EU Commission started issuing social bonds in October 2020, following the adoption of a social bond framework that is compliant with the ICMA Social Bond Principles. The first EU social bond issued under the 'Support to mitigate Unemployment Risks in an Emergency' (SURE) program attracted an order book of EUR 233 billion, the largest order book for any deal in the history of global bond markets.[6] As of Q1 2022, there have been over USD 102 billion worth of EU social bonds issued, and the SURE social bond program has become the world's largest social bond scheme.

France, however, tops the country ranking with USD 131.1 billion worth of social and sustainability bonds combined (Figure 6). This is primarily fueled by the state agency Caisse d'Amortissement de la Dette Sociale (CADES) – the second largest social bonds issuer after the EU Commission. Supervised by the Ministry of Finance and Ministry of Social Security, CADES has issued USD 66.8 billion worth of social bonds to finance and/or refinance the deficits of the various branches and regimes of the French Social Security system such as in healthcare, pension, and housing allowance.

The Republic of Korea ranks second, with a total of USD 66.5 billion social and sustainability bonds, followed by the United States (USD 57.7 billion) (Figure 6), with both being driven by public sector issuers such as agencies and municipalities.

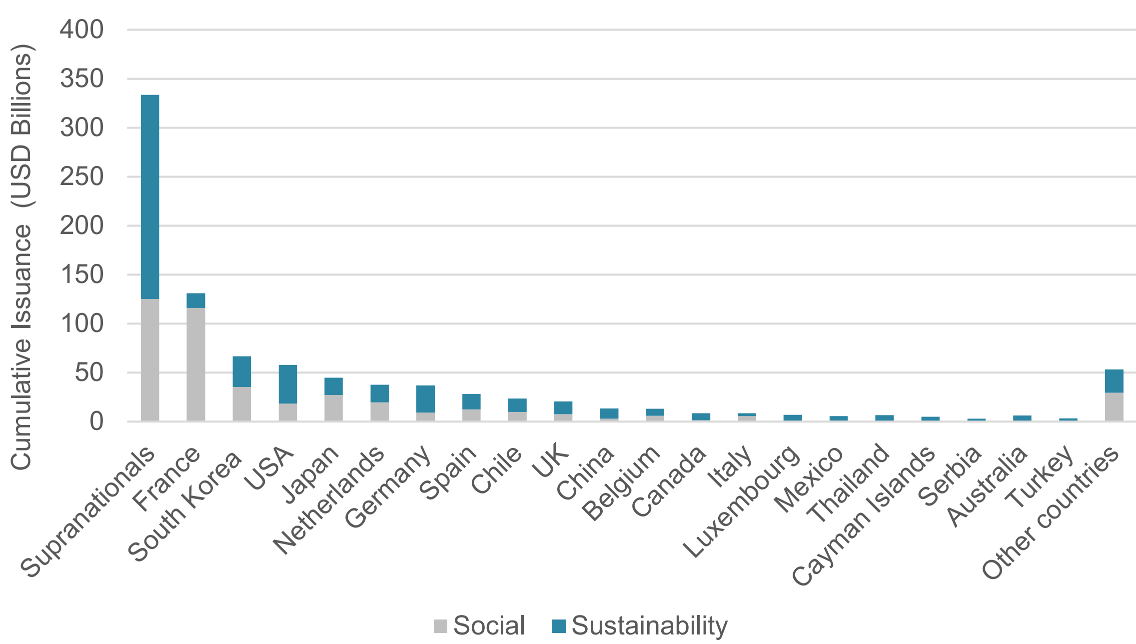
[6] European Commission, SURE Social Bonds | European Commission (europa.eu)

Figure 5. Year-on-year growth of social and sustainability bonds issuance



Data source: Refinitiv

Figure 6. Country ranking for social and sustainability bonds



Data source: Refinitiv, Climate Bonds Initiative[7]

[7] Climate Bonds Initiative (CBI) identified social and sustainability municipal bonds are added to the analysis. CBI database methodology is available on [Market Intelligence | Climate Bonds Initiative](#).

Where next for the SSB market?

As the OECD's latest Global Outlook on Financing for Sustainable Development indicated[8], the gap in SDG financing has been further widened since the pandemic crisis, and the world needs about USD 4.2 trillion per year to keep on track for the 2030 SDGs[9], compared to USD 2.5 trillion per year before the pandemic. In this context, social and sustainability bonds are expected to experience further growth to support the financing and refinancing of the green and social recovery spending, in both public and private sectors.

Supranationals take a lead in both social and sustainability bond markets, followed by agency issuers in the social bond market, and financial corporates in the sustainability bond market (Figure 7 and 8). In the green bond market, supranationals were also pioneers in the first decade following the inaugural issuance in 2007, until financial corporates, non-financial corporates and agency issuers surpassed them in 2018 as the market further deepened (Figure 9).

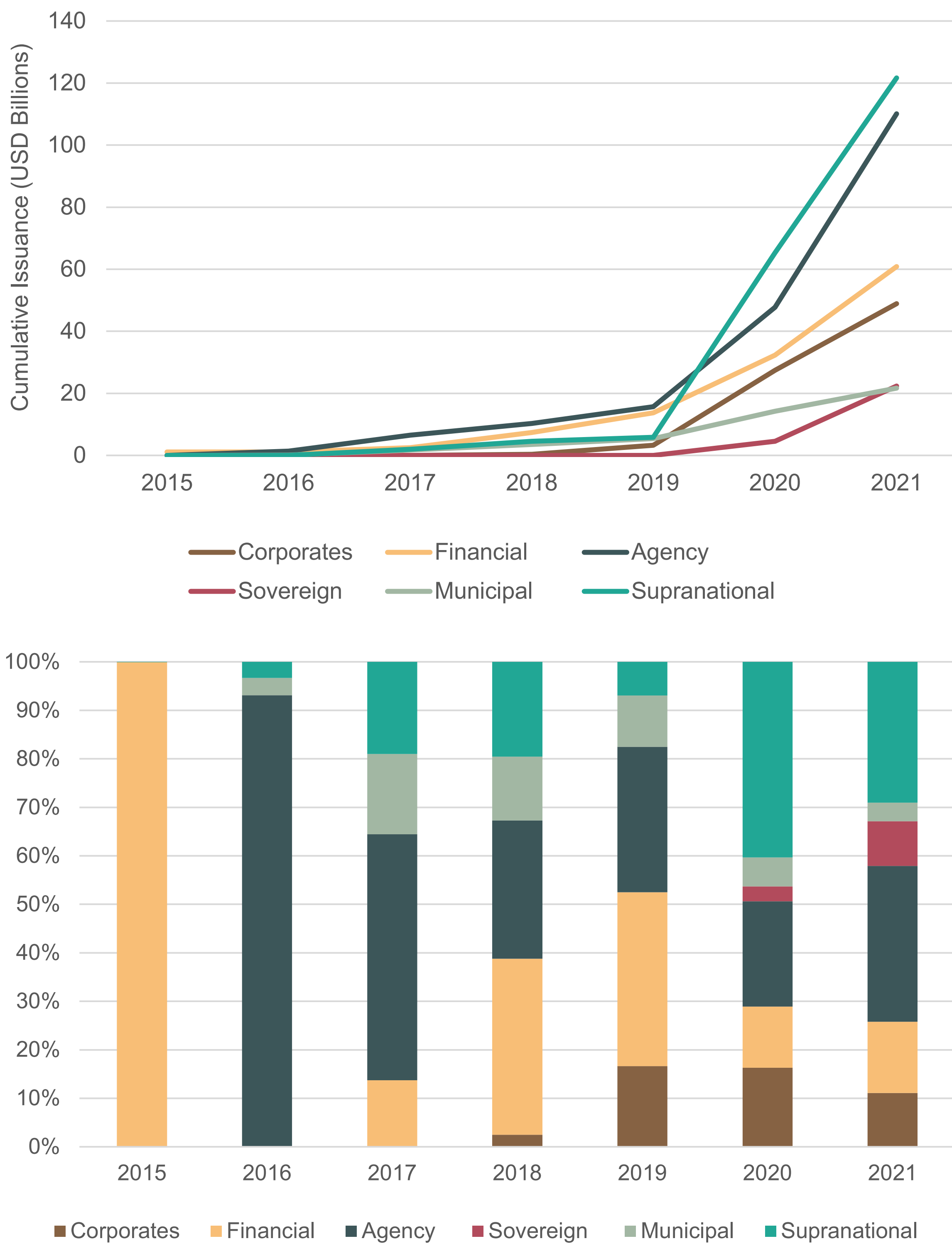
As issuers and investors are becoming more familiar with SSBs, they are likely to see continued growth and experience issuer type and instrument type diversification, paralleling developments in the green bond market. However, we expect public sector issuers such as sovereigns, sub-sovereigns, municipalities, agencies and supranationals to continue to dominate the social and sustainability bond markets, with many social infrastructures and social services remaining a responsibility of the public sector.

Figures 7, 8 and 9 illustrate the issuer diversification of social, sustainability and green bonds respectively. In each figure, the line chart represents the cumulative issuance of each issuer type, while the stacked bar chart represents the proportions of issuer types (by annual issuance) in each year. The cut-off date is 2021 year-end (31 December 2021).

[8] OECD, Global Outlook on Financing for Sustainable Development 2021: A New Way to Invest for People and Planet | en | OECD.

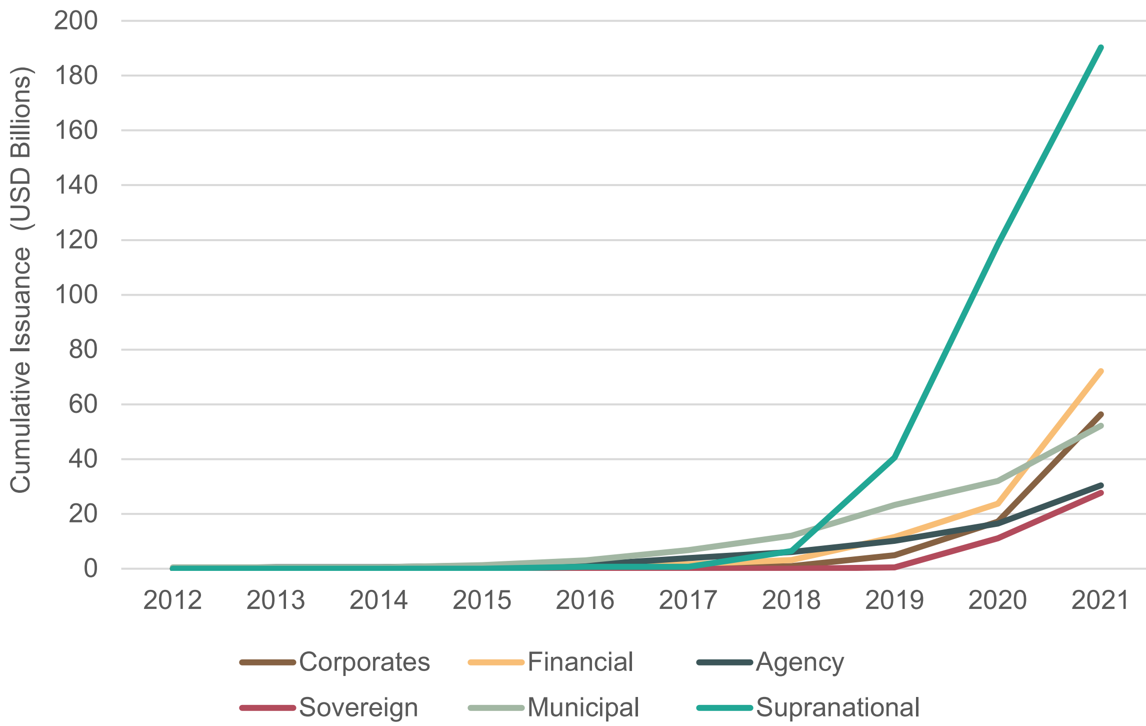
[9] The Sustainable Development Goals (SDGs) were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity. UNDP, Sustainable Development Goals | United Nations Development Programme (undp.org).

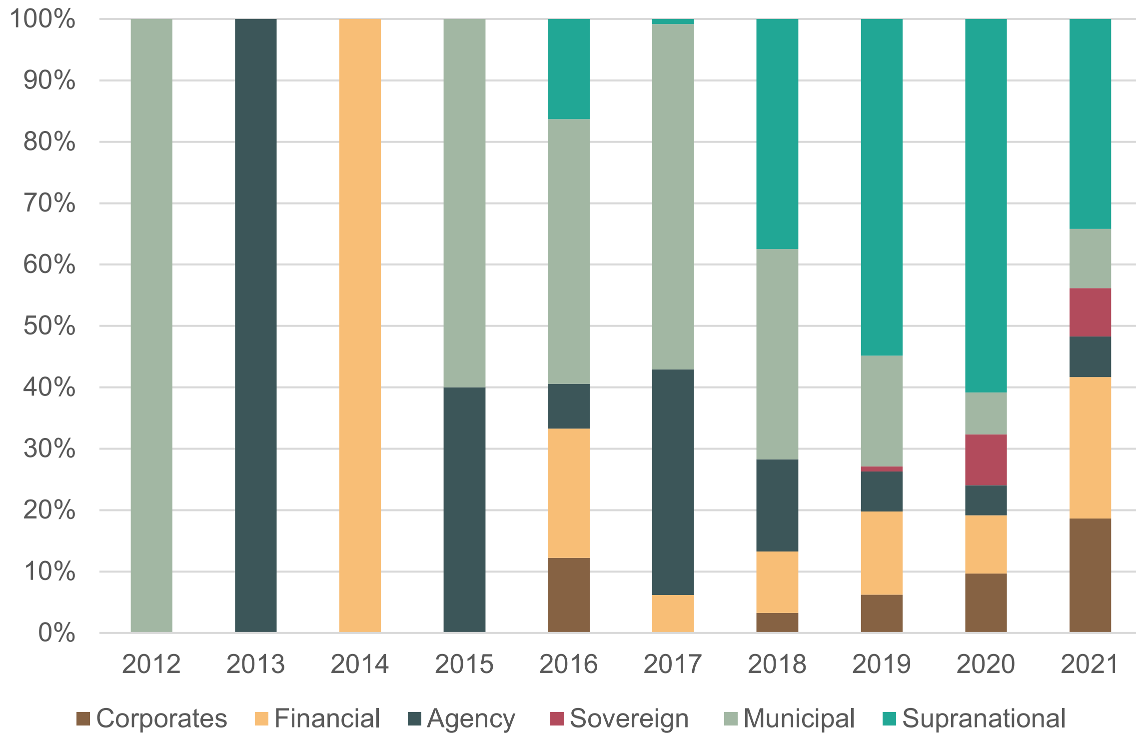
Figure 7. Social bonds issuer types



Data source: Refinitiv, CBI.

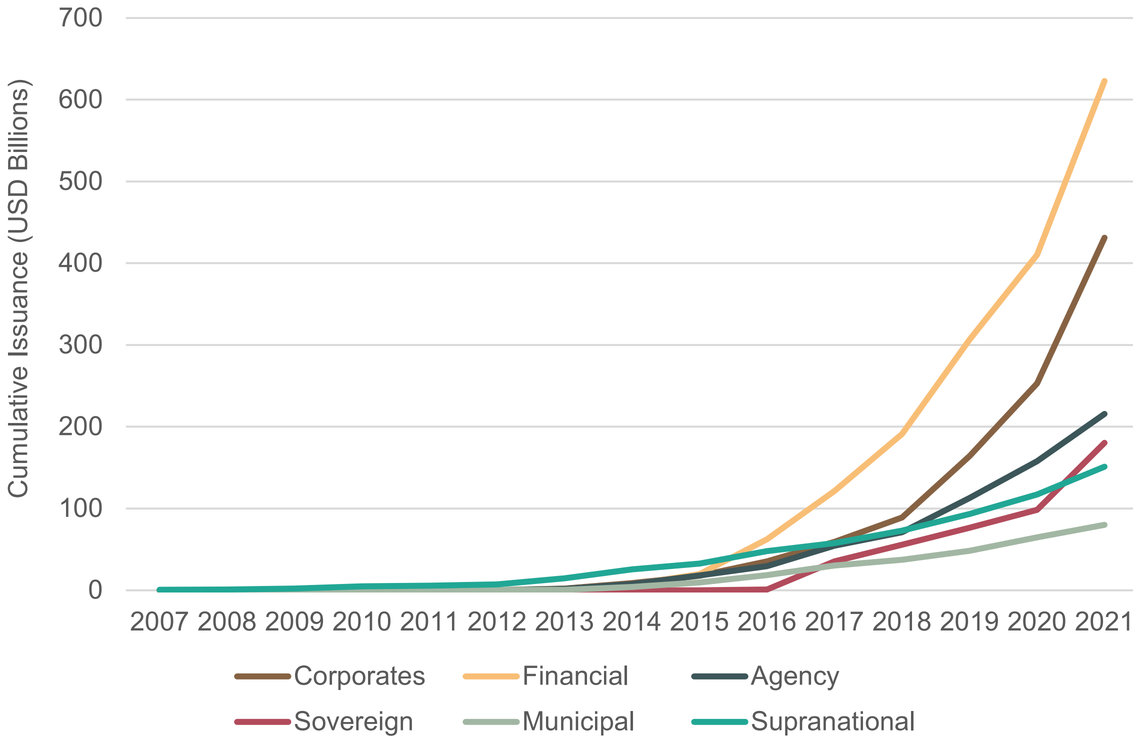
Figure 8. Sustainability bonds issuer types

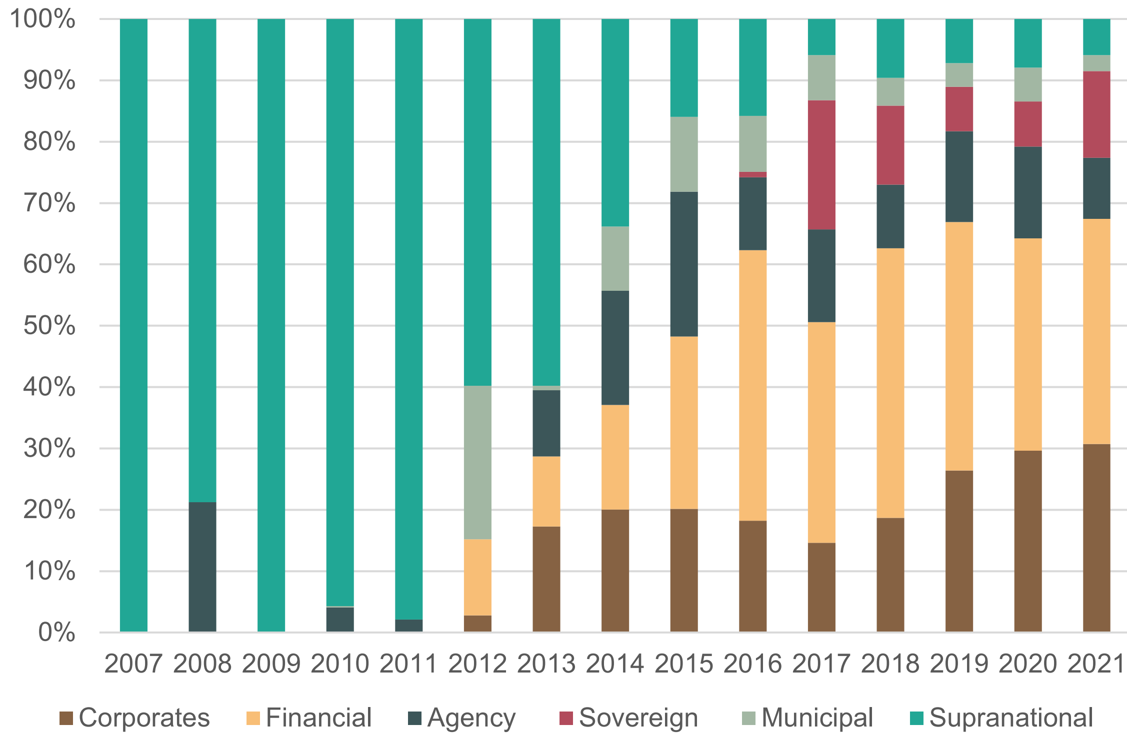




Data source: Refinitiv, CBI

Figure 9. Green bonds issuer types





Data source: Refinitiv, CBI

Figure 10. Issuer types ranking in comparison with green bonds

Rank	Green bonds	Sustainability bonds	Social bonds
1	Financial	Supranational	Supranational
2	Corporate	Financial	Agency
3	Agency	Corporate	Financial
4	Sovereign	Municipal	Corporate
5	Supranational	Agency	Sovereign
6	Municipal	Sovereign	Municipal

Data source: Refinitiv.

Sovereign social and sustainability bonds

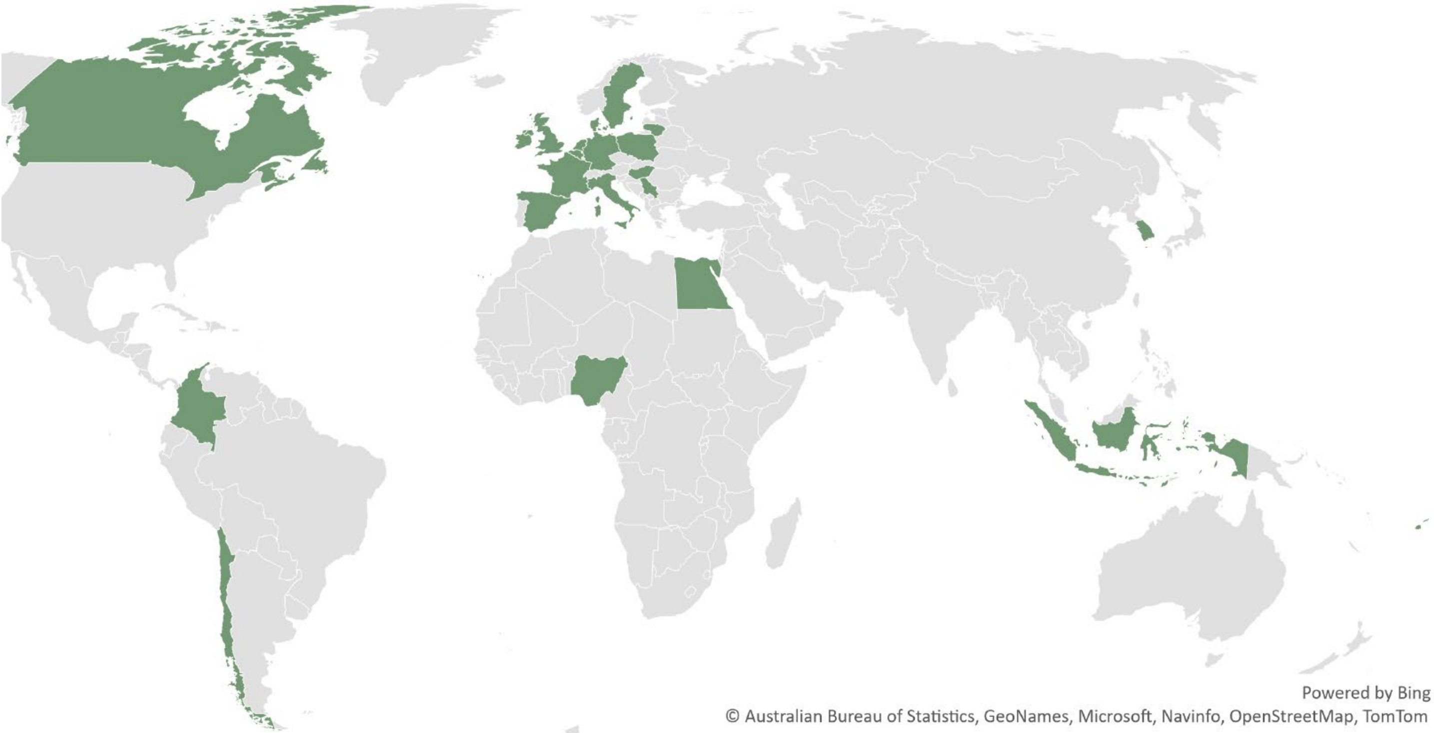
Sovereign issuance normally plays an important role in catalyzing local markets. While European countries still dominate issuance of sovereign green bonds, it is worth highlighting that emerging markets have played a key role in issuing sovereign social and sustainability bonds. The demonstration issuances of sovereign social and sustainability bonds could encourage local governments, agencies and corporates to identify their own need and expenditure pipelines in SDG financing.

Figure 11. Sovereign green, social and sustainability bond issuance[10]

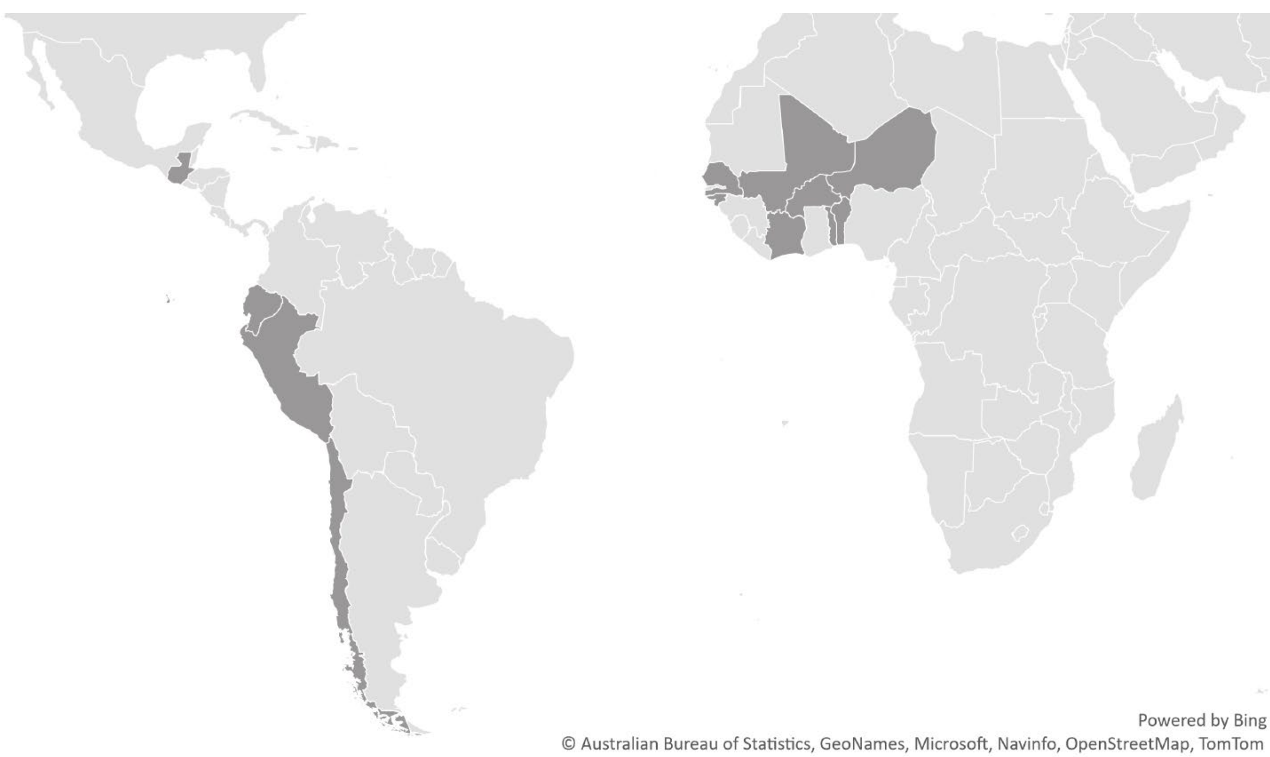
	Green bonds	Sustainability bonds	Social bonds
Amount issued	USD 191.6 bn	USD 32.4 bn	USD 22.3 bn
Number of countries	24	15	12

[10] The social sovereign bond figures include USD10.3bn worth of issuances (from 8 countries) in response to the COVID pandemic. The green and sustainability sovereign bond figures include sovereign green and sustainability Sukuk from Indonesia and Malaysia respectively.

Green bonds—sovereign issuance

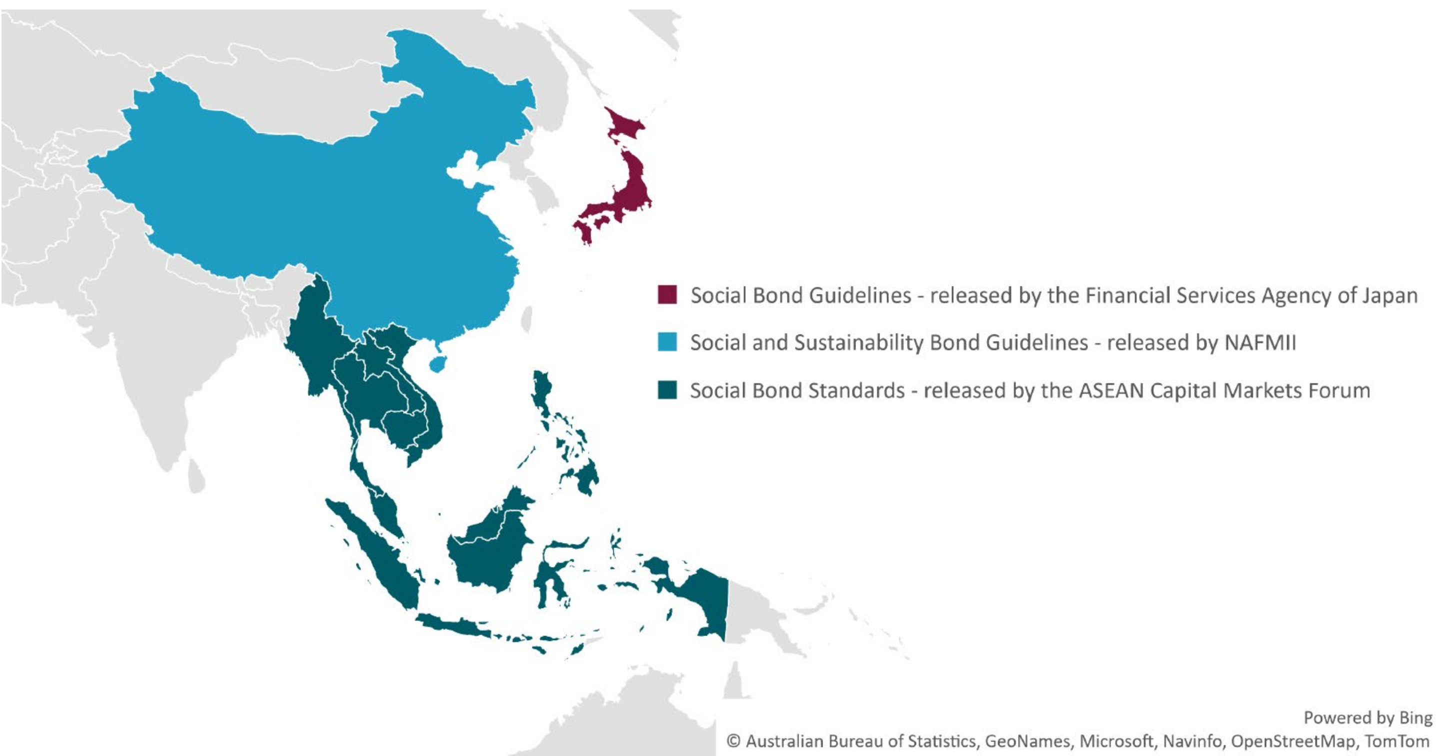


Social bonds—sovereign issuance



Sustainability bonds—sovereign issuance

Markets with social and sustainability bond guidelines



Data source: Refinitiv.

Note: the map illustrates markets that have issued social and sustainability bond guidelines.

Understanding SDG alignment of SSBs

Aligning investment with the SDGs enables investors to not only respond to the urgency of social and economic recovery in the short term, but also facilitate longer-term impacts on the transition to a resilient and sustainable future.

Some social or sustainability bonds issuers disclose how bond proceeds will be allocated in line with the SDGs. Where such disclosures are not available, the link between a social or sustainability bond and the SDGs can be built by using a predefined mapping between use of proceeds categories and each SDG. Identifying SDG alignment at the bond level (and portfolio level) would help investors not only to identify bonds that are in line with their sustainable investment strategy, but also to understand where their investment has made impacts. At a broader level, the SDG alignment of social and sustainability bonds could help policy makers and the market understand capital allocation towards each SDG and the potential gaps in SDG financing.

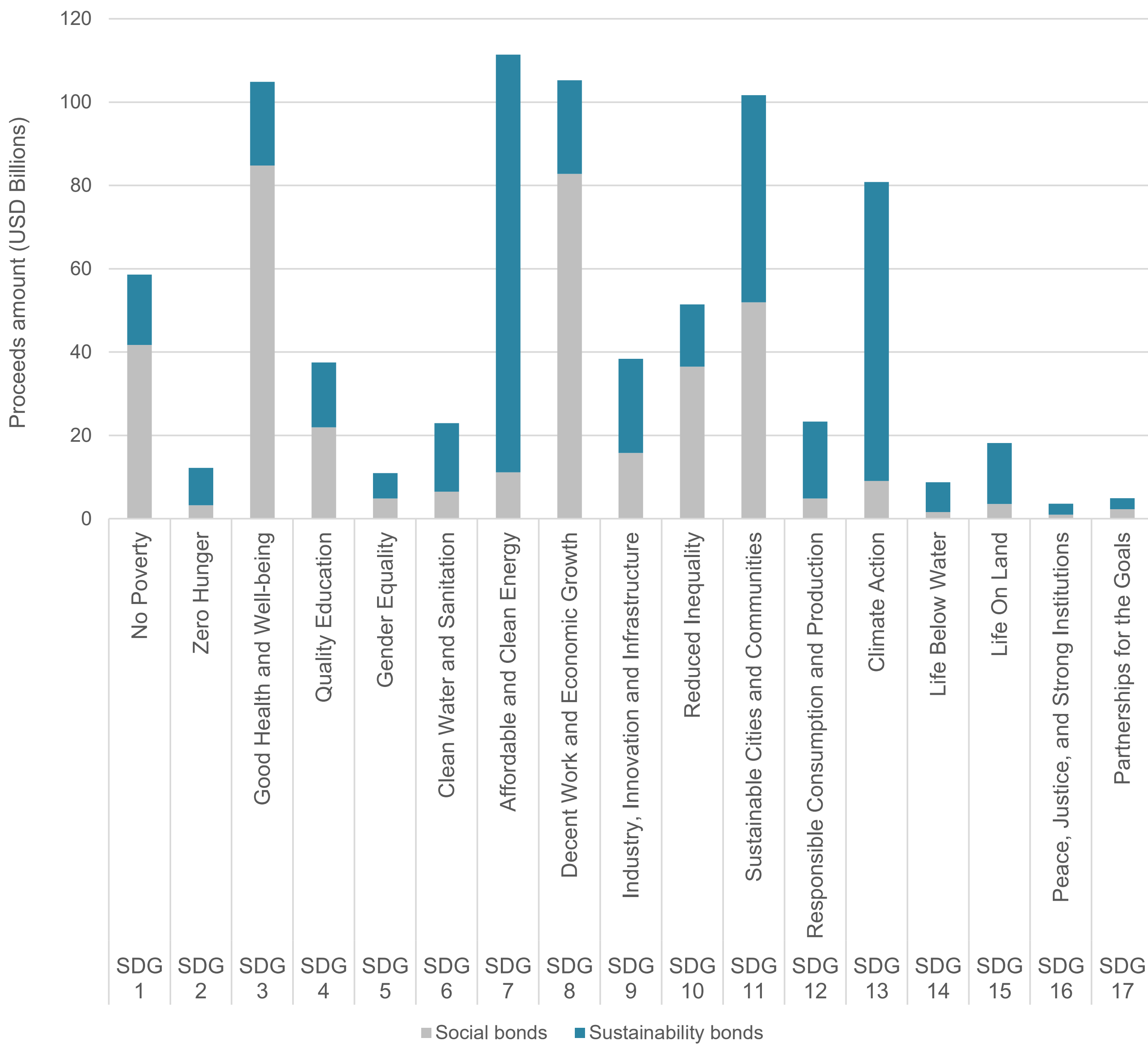
Our analysis[11] finds SDG 3 (Good Health and Well-being), SDG 8 (Decent Work and Economic Growth) and SDG 11 (Sustainable Cities and Communities) are among the top themes financed by social bonds, representing 52% of overall social bonds volume (Figure 12).

In contrast, sustainability bonds tend to have a larger proportion of financing related to green and climate, in addition to social projects. This is reflected in the SDGs breakdown, where around 40% of sustainability bond proceeds are allocated to SDG 7 (Affordable and Clean Energy) and SDG 13 (Climate Action).

It is worth nothing that although social bonds are dedicated to projects with social purposes, they can also contribute to climate and environmental-related SDGs because of the co-benefits that a social project may deliver. For example, a 'social housing' bond may contribute to SDG11 (Sustainable Cities and Communities) and SDG13 (Climate Action) as a result of its co-benefits if the social housing is designed and constructed as a LEED Certified green residential building.

[11] Note on methodology: If the SDG alignment is disclosed by an issuer, the contribution to each SDG is calculated by dividing the par value by the number of aligned SDG categories. If the SDG alignment is not disclosed, the use-of-proceeds and SDG alignment mapping is used as the basis for calculation. In total, 1533 out of all 1909 social and sustainability bonds have disclosed their SDG alignment.

Figure 12. Social and sustainability bonds and their alignment with SDGs



Data source: Refinitiv.

London Stock Exchange's Sustainable Bond Market (SBM)

The London Stock Exchange is one of the key capital formation and execution venues at LSEG[12], and the Sustainable Bond Market (SBM) continues to be a market leader in sustainable debt finance. There are over 340 active bonds for an outstanding total of USD 142 billion on the SBM. Over GBP 52 billion was raised by 107 issues in 2021, 3.3 times more than the total capital (and more than 2.5 times the number of bonds) raised in 2020. In addition, more than GBP 31 billion was raised through sustainable sovereign bonds, a 6x year-on-year increase.

In 2015, the London Stock Exchange became the first exchange to set up dedicated segments for green bonds in response to the development of the Green Bond Principles under the stewardship of the International Capital Markets Association. That developed into the Sustainable Bond Market (SBM), which launched in October 2019 and brought together segments for social bonds and sustainability bonds linked to newer or newly-established principles. The SBM enables issuers across the world to raise capital for green, social, sustainability and sustainability-linked purposes.

Landmark transactions on the SBM last year included the listing of the UK's first Green Gilts, which raised GBP 10 billion for the UK Treasury, and the issuance by the Bank of China of the first-ever sustainability re-linked bond, the coupon payments of which are linked to the ESG performance of a portfolio of underlying sustainability-linked loans.

At COP26, the London Stock Exchange became a founding member of a high-level working group on green Sukuks with the UK Government, the Republic of Indonesia, the Islamic Development Bank and the Global Ethical Finance Initiative (GEFI) with the ambition of bringing together organizations to develop the Sukuk segment of the green bond market.

[12] London Stock Exchange Group: LSEG is more than a diversified global financial markets infrastructure and data business.

Market guidelines for social and sustainability bonds

Guidelines for issuers, either voluntary or mandatory, play an important role in promoting transparency and disclosures around SSBs. A number of international organizations and local regulators have established various guidelines to underpin the integrity of the social and sustainability bond markets, by outlining best practices and providing recommendations on how to best serve social and sustainability purposes.

International guidelines

ICMA Social Bond Principles and Sustainability Bond Guidelines

In 2017, the International Capital Market Association (ICMA) launched Social Bond Principles (SBP) and ICMA Sustainability Bond Guidelines (SBG).

The **SBP** seek to support issuers in financing socially-sound projects that achieve greater social benefits. SBP recommend four core components which are in line with the Green Bond Principles (GBP), including the Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, and Reporting.

The **SBG** confirm the relevance of the SBP and GBP in this context and facilitates the application of their guidance on transparency and disclosure to the sustainability bond market. The common four core components of the GBP and SBP, and their key recommendations on Bond Frameworks and the use of External Reviews, also apply to sustainability bonds.[13]

Regional guidelines

ASEAN: ACMF's Social Bond Standards

The ASEAN Capital Markets Forum (ACMF) which comprises capital market regulators from ASEAN countries developed the ASEAN Social Bond Standards (SBS) in 2018. The ASEAN SBS were developed based on ICMA Social Bond Principles (SBP)[14], aiming to complement the ASEAN Green Bond Standards and to develop social asset classes finance in the region.

Japan: Financial Services Agency's Social Bond Guidelines

To promote the wider adoption of social bonds in Japan by ensuring their credibility, Japan Financial Services Agency (FSA) – the financial regulator responsible for overseeing banking, securities and exchange, established the Social Bond Guidelines[15] in accordance with the ICMA SBP in 2021. Apart from introducing the basic requirements that are in line with ICMA SBP, it also provides practical examples and interpretations that are appropriate to the situation in Japan.

China: NAFMII's Pilot Programme on Social Bonds and Sustainability Bonds

The National Association of Financial Market Institutional Investors (NAFMII) – a quasi-regulator in the China Interbank Bond Market (CIBM), introduced a program[16] encouraging social and

[13] ICMA, Sustainability Bond Guidelines (SBG) » ICMA (icmagroup.org)

[14] ASEAN Capital Markets Forum (ACMF), ACMF ASEAN Social Bond Standards

[15] Japan Financial Services Agency, Social Bond Guidelines.

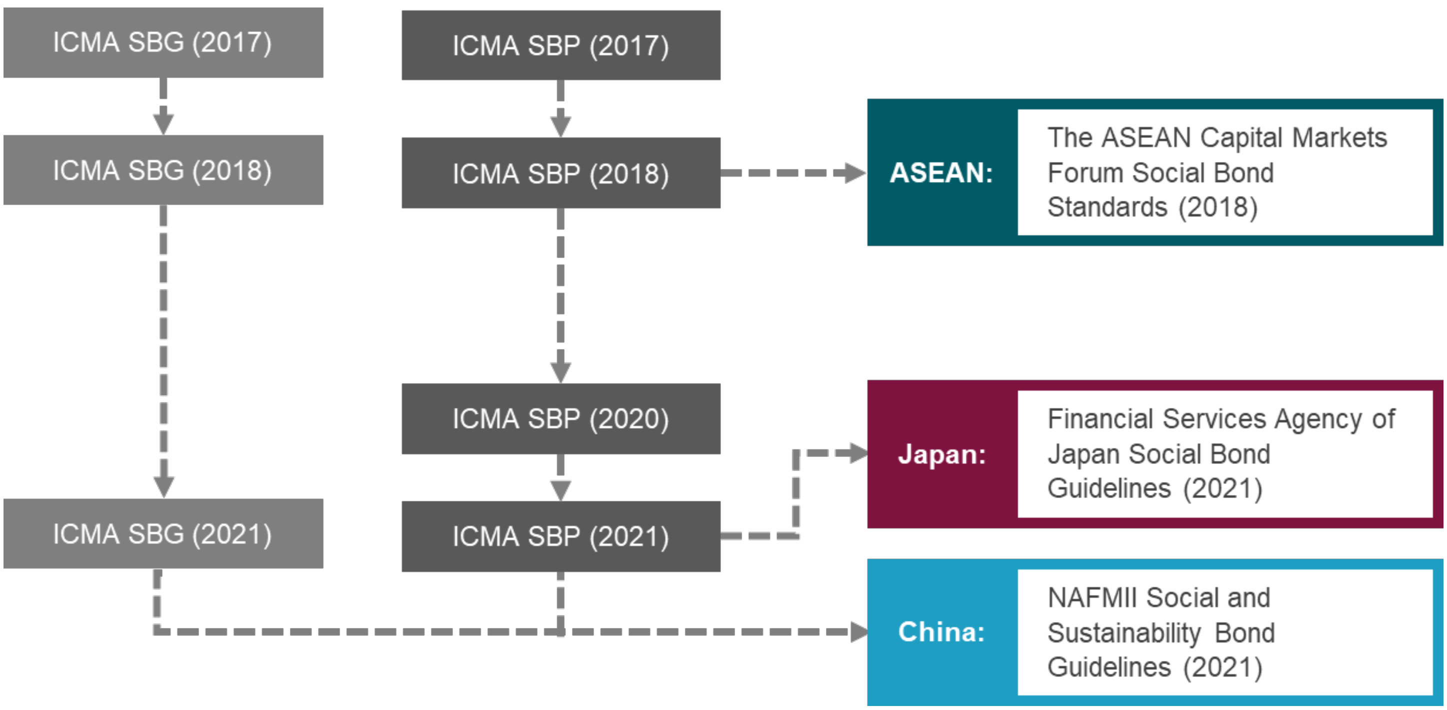
[16] China's National Association of Financial Market Institutional Investors, Q&As on Pilot Program of Social Bonds and Sustainability Bonds.

sustainability bonds issuance. The program was also developed on the basis of the ICMA SBP and SBG with additional supporting measures such as providing fast track registration and approval mechanisms for social and sustainability bond issuers.

EU: Upcoming EU Social Taxonomy

In July 2021, the EU Platform on Sustainable Finance released a draft report[17] outlining the EU Social Taxonomy, intended to provide a social dimension in the EU's Sustainable Finance Regulations. Currently, the draft report provides foundational principles and structures for a future EU Social Taxonomy design. The proposed Taxonomy will provide guidance for financial market participants on how to define social investments and which criteria they should apply if they want to create or invest in a financial product with social objectives or characteristics. However, the taxonomy remains high-level, with detailed application and development still under discussion.

Figure 13. The evolution of international and regional social and sustainability bond guidelines



Mapping between guidelines – how do they compare with SBP and SBG?

Recommendations outlined by ICMA SBP and SBG currently represent the most widely accepted best practice globally and in some local markets. Bonds that comply with SBP or SBG could benefit from increased investor confidence in their credibility.

Figure 14 summarizes the compatibility of regional guidelines with ICMA SBP and SBG. As all the regional guidelines were developed on the basis of SBP and/or SBG, their core requirements and recommendations are fully in line with the four components outlined by SBP and SBG. The EU Social Taxonomy being developed intends to provide clearer definitions on the social objectives in the EU Taxonomy regulation. It focuses on the development of a much broader classification on activities and criteria rather than the specific guidance for bonds issuance.

[17] EU Platform on Sustainable Finance, Final Report on Social Taxonomy.

Figure 14. Comparison between ICMA SBP/SBG and regional guidelines

ICMA SBP/SBG	ASEAN	Japan	China	EU
CORE COMPONENTS COMPATIBILITY				
Use of proceeds	✓	✓	✓	The proposed EU Social Taxonomy is under development. It would extend the Taxonomy Regulation to social objectives and may act as a guide for social bond issuance.
Projects Evaluation and Selection	✓	✓	✓	
Management of proceeds	✓	✓	✓	
Reporting	✓	✓	✓	

The challenges and opportunities of maintaining market integrity

Upholding market integrity

Driven by the rapid growth of social and sustainability bonds, market integrity has been a topic gaining more attention from investors. In the context of impact bonds, the concept of 'social washing' (akin to the concept of 'greenwashing') is sometimes used to refer to the risk that a labelled 'social' bond fails to allocate proceeds to eligible social projects, or the projects fail to deliver the positive social impact that investors expected. Similarly, 'sustainability washing' indicates the risks in delivering both social and green impacts.

Although transparency plays a fundamental role in underpinning the integrity of green, social and sustainability bonds, challenges exist when evaluating social bonds (or in the social aspect in sustainability bonds), even if information is available. This is because social matters tend to be especially broad, and social impacts are not always quantifiable compared to green bonds.

More specifically, unlike green bonds where impacts and targets can be science-based and measured quantitively, there are no standardized criteria to define and measure social impacts. For example, although the Green Bond Principles do not take a position on which green technologies, standards, claims and declarations are optimal for environmentally sustainable benefits, there are several current international and national initiatives to produce taxonomies to give further guidance to issuers and investors as to what may be considered green and eligible[18]. However, such granular and widely accepted social taxonomy is not yet available. The complication is amplified by the fact that predominant social issues in one region, or for one target group, may become irrelevant for others.

A two-dimension framework to define eligible social projects

Irrespective of the challenges in developing standardized criteria, recommendations in existing guidelines can already be used as a baseline framework. ICMA SBP indicates that social bonds should aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes, especially, but not exclusively, for a target population(s). Similarly, the Platform for Sustainable Finance released a consultation paper in 2021 - proposing vertical and horizontal objectives as a fundamental structure in the EU Social Taxonomy. The vertical dimension focuses on 'what type of business activities' could be considered social, while the horizonal objectives focus on the degree to which the economic activities can be considered socially sustainable, i.e. people, or stakeholders, commonly affected by economic activities[19]. In other words, having activities falling into a certain social category does not necessarily justify the social benefits. This has to be combined with the consideration of the target group.

Therefore, the following two dimensions can serve as a framework for both issuers and investors to define eligible social projects (Figure 15 summarizes the key examples recommended by ICMA SBP and EU Final Report on Social Taxonomy). As the SBP suggest, all participants in the market could use this as a foundation and to develop their own robust practices. Projects should also go beyond 'business as usual' and go demonstrably beyond the applicable legislative requirements to deliver additional external benefits.

- Factor 1: Social categories – define the eligible projects and assets;
- Factor 2: Target group – define whom the projects and assets serve.

[18] International Capital Markets Association, ICMA Green Bond Principles.

[19] EU Platform on Sustainable Finance, Final Report on Social Taxonomy.

Figure 15. The two-dimension framework to define eligible social projects

Examples of Social Project Categories	Examples of Target Groups
• Affordable basic infrastructure • Education • Healthcare • Affordable housing • Employment generation, and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises, including through the potential effect of SME financing and microfinance • Food security and sustainable food systems • Socioeconomic advancement and empowerment	• People living below the poverty line • Excluded and/or marginalized populations and/or communities • Indigenous people • People with disabilities • Migrants and/or displaced persons • Undereducated • Underserved neighborhoods, owing to a lack of quality access to essential goods and services • Unemployed • Women and/or sexual and gender minorities • Ageing populations and vulnerable youth • Other vulnerable groups, including as a result of natural disasters

Source: ICMA SBP, ICMA SBG, EU Final Report on Social Taxonomy.

Social and sustainability bond indices

What is a social and sustainability bond index?

A bond index is a basket of fixed-income securities that represents a particular market or a segment of the market. In the case of a social or sustainability bond index, it is a basket of eligible social or sustainability bonds that represents the social or sustainability bond markets. Social or sustainability bond indices may have different methodologies for selecting eligible constituent bonds and may differ from another even though they are representing the same market.

The methodology of a social or sustainability bond index should closely align to investors' views of the market, by specifying factors that will determine the criteria for index inclusion and exclusion. For a conventional bond index, factors used to determine the composition include, but are not limited, to country, currency, credit rating quality, issuance size, maturity and coupon type. For a social or sustainability bond index, additionally the definition of eligible criteria for 'social' and 'sustainability' bonds is a key aspect of the methodology.

What is a social or sustainability bond index used for?

Measuring performance

A social or sustainability bond index is designed to use standardized methodology and metrics to measure the performance of a basket of social bonds or sustainability bonds e.g. across geographies, industries, and securities types. Apart from being used to compare performance of the social and sustainability bond markets against the performance of the broader bond markets, a social or sustainability bond index can also be used by asset owners and asset managers as a benchmark against which to measure the performance of their investments in social and sustainability bonds.

Developing financial products

A social or sustainability bond index can be used as the basis for the development of index-tracking investment products, including passive social and sustainability bond funds, and passive exchange traded products such as ETFs. A social or sustainability index and index-based products enable institutional investors to access the broader social and sustainability bond market without having to actively manage and invest in social and sustainability bond issues. Retail investors could also benefit from exchange traded social and sustainability bond products which are expected to see rapid growth, following the trends seen in the development of green bond ETFs.

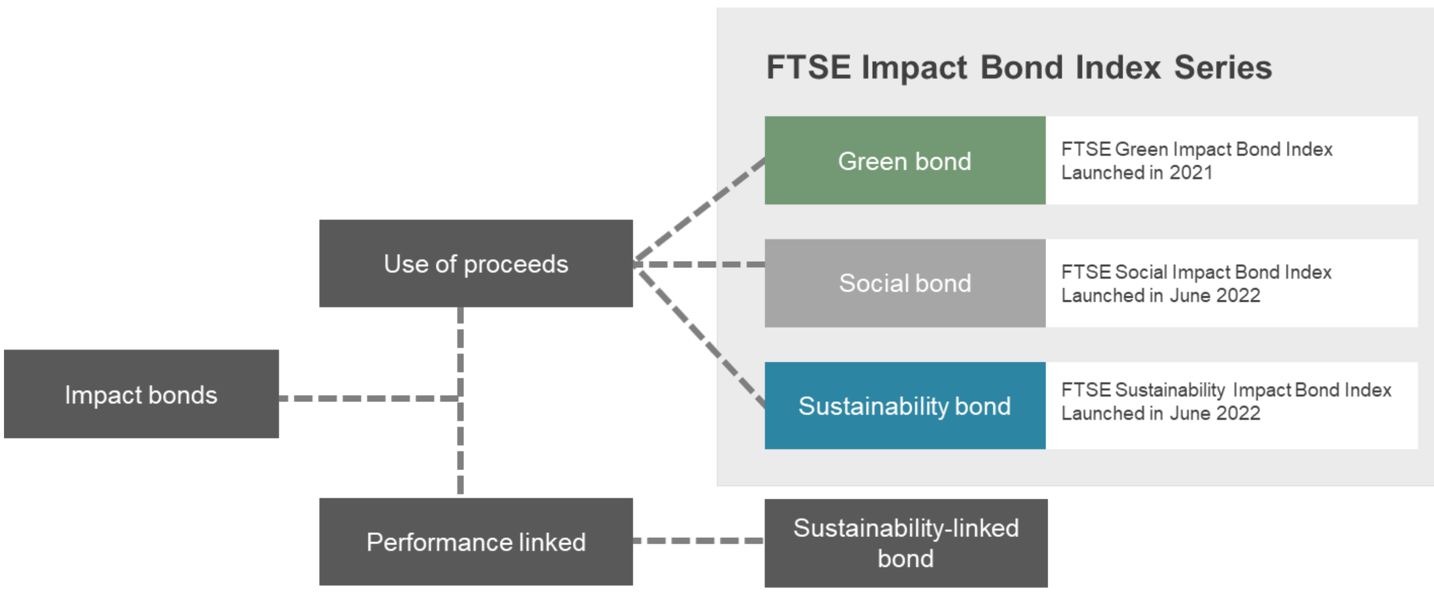
Improving liquidity and transparency

Social bond and sustainability bond indices, also further support market development by fostering transparency and liquidity. Increased market liquidity is often correlated with the scale of the overall market and increased investor demand. A social or sustainability bond index offers investors an opportunity to identify and invest in eligible bonds in a single instrument. By matching supply and demand, an index can help enhance the liquidity which is important in the current development of social and sustainability bond market.

Introducing FTSE Russell's Social Impact Bond and Sustainability Impact Bond Indices

The FTSE Impact Bond Index Series consist of the three indices shown in Figure 16. The launch of the FTSE Social Impact Bond Index Series and FTSE Sustainability Bond Index Series will represent the use-of-proceeds type of social and sustainability bonds respectively. Together with the FTSE Green Impact Bond Index Series that was launched in 2021, the FTSE Impact Bond Index Series offers a set of complete tools and benchmarks for the whole green, social and sustainability (GSS) bond markets and helps investors to track performance and identify eligible bonds serving sustainable purposes across climate, environmental and social themes.

Figure 16. FTSE Impact Bond Index Series



Building a credible social bond index and a sustainability bond Index

The FTSE Impact Bond Index Series leverages Refinitiv data to identify underlying bonds that follow corresponding international guidelines. Specifically, Refinitiv data identifies social and sustainability bonds that are in line with the core components of ICMA SBP and/or SBG. This is recognized through issuing documents such as a bond prospectus, or external reviews such as a second party opinion (SPO) report.

Given the nature of social projects and the state of market development, arguably the framework provided by ICMA is the most practical set of guidelines that can ensure the credibility of social and sustainability bonds.

To comply with ICMA SBP or SBG, a bond has to follow the recommendations of all four components including the **Use of proceeds, Process for project evaluation and selection, Management of proceeds** and **Reporting**.

Use of proceeds

ICMA SBP and SBG require bond proceeds to be exclusively used to finance or re-finance in part or in full new and/or existing eligible social projects or the combination of social and green projects. All designated eligible projects should provide clear social or sustainability benefits, which will be assessed and, where feasible, quantified by the issuer. Refinitiv data also tracks and validates the actual proceeds allocation based on issuer's self-disclosure.

Process for project evaluation and selection

When claiming a bond is in line with ICMA SBP or SBG, an issuer should provide information about the process for project evaluation and selection, which should be supplemented by an external reviewer. This could provide further details and rationales on how the selected projects are considered as sustainable.

Management of proceeds

This component in SBP and SBG requires the net proceeds of the bond, or an amount equal to these net proceeds, to be credited to a sub-account, moved to a sub-portfolio or otherwise tracked by the issuer in an appropriate manner, and attested to by the issuer in a formal internal process linked to the issuer's lending and investment operations for social or sustainable projects. The issuer should make known to investors the intended types of temporary placement for the balance of unallocated net proceeds. This could further enhance investors' confidence in the credentials of the bonds.

Reporting

Both SBP and SBG suggest that the issuer should release post-issuance reports at least annually. The reports should include lists of green and/or social projects to which the bond proceeds have been allocated, amounts allocated, and their expected green and/or social impact. Specifically, issuers should make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and on a timely basis in the case of material developments.

Validating adherence to ICMA principles to select eligible bonds for SSB indices

On an ongoing basis, Refinitiv confirms the availability of post-issuance reports for each eligible constituent bond which has committed to comply with relevant ICMA principles. The search for the post-issuance report is conducted when nearing the 12th month since the bond issue date. For example, if a bond is issued on January 15, the search will take place in January of the following year.

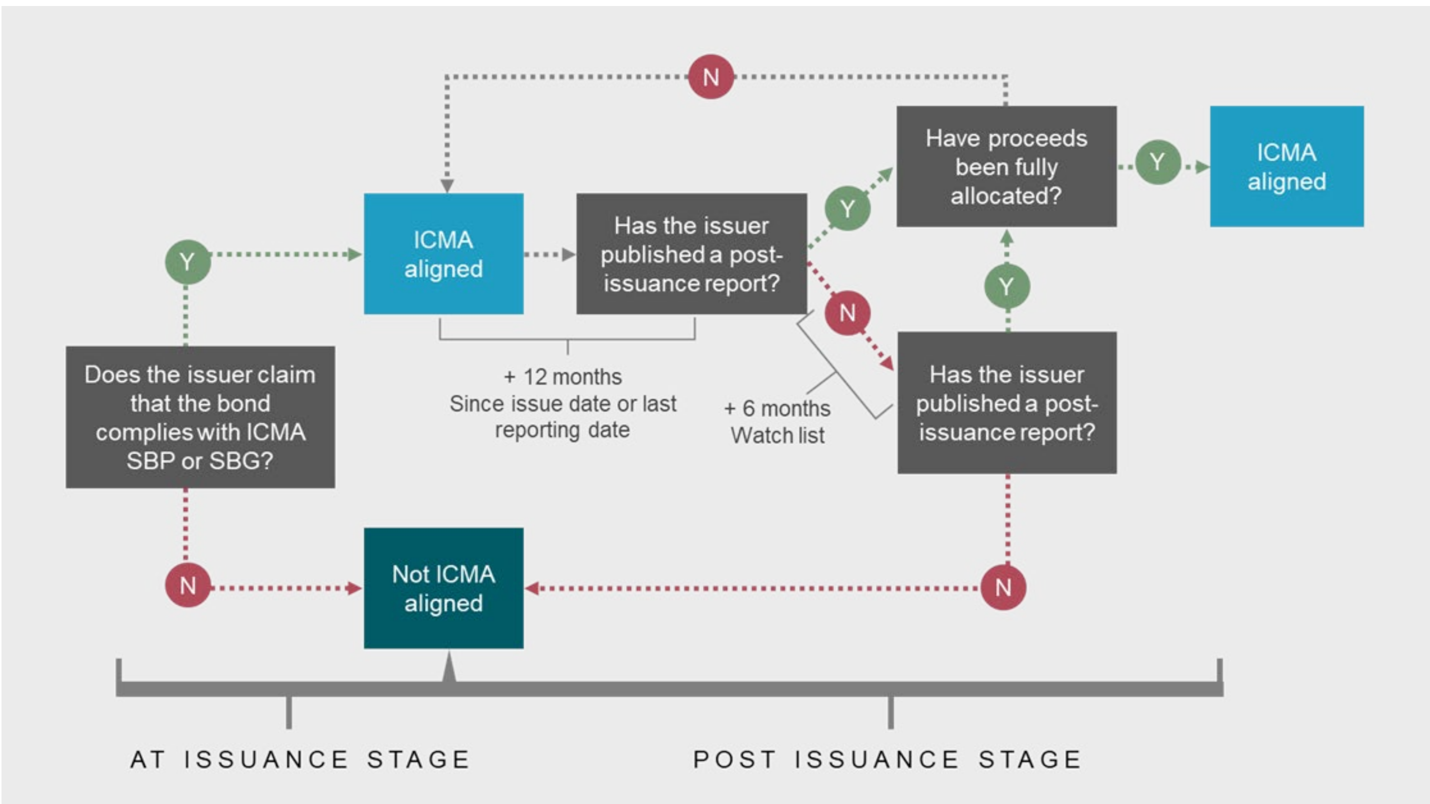
Treatments of various potential scenarios related to the search are listed below.

- Post-issuance report is available:
  - If the post-issuance report is available and all net proceeds have been fully allocated, the bond will be considered to have fulfilled the reporting commitment permanently.
  - If the latest post-issuance report is available and the proceeds have not been fully allocated, the bond will be subject to follow-up post-issuance report confirmations on an annual basis until the proceeds are fully allocated.
- Post-issuance report is not available:
  - However, if its first post-issuance report is not available immediately after the 12th month since the issue date, a bond will be flagged in the watch list and a 6-month extension will be granted. For example, if a bond is issued on January 15, and the post-issuance report is not available in January of the following year, the bond can still stay in the index but is subject to close post-issuance report scrutiny until July of the same year.

- A bond will be removed from the index if the issuer fails to release a post-issuance report publicly in the 18-months period since the issue date. For example, if a bond is issued on January 15, and the post issuance report is not available by the end of July the following year, it will be removed at the July month-end rebalance.
- Similarly, if an issuer fails to release a report for an 18-months period since its latest post-issuance report where proceeds had not been fully allocated, the bond will also be removed.
- When an index bond is removed, it's no longer considered eligible for inclusion in the future.

By adopting this approach, the FTSE Social Impact Bond index and FTSE Sustainability Bond index will become the first index series introducing ICMA compliance validation at both issuance and post issuance stage.

Figure 17. FTSE Russell Index's validation process of ICMA alignment



Index data and profile

The FTSE Impact Bond Index Series provides a comprehensive measure of the global green, social and sustainability (GSS) bond market across various asset classes and credit sectors. The FTSE Impact Bond Index Series measures the performance of both investment-grade and high-yield multi-currency GSS debt issued by various categories of borrowers: government, government-sponsored, supranational, covered, and corporation.

The FTSE Impact Bond Index Series consists of the following:

- FTSE Green Impact Bond Index Series
- FTSE Social Impact Bond Index Series
- FTSE Sustainability Impact Bond Index Series

The categorization of underlying bonds is based on the examination of the use of proceeds and/or the self-claimed label of each bond.

- Green Bonds are bonds that carry ‘Green’ and/or equivalent labels such as ‘Climate’ or ‘Environmental’, and whose proceeds are applied to finance or re-finance eligible green projects.
- Social Bonds are bonds that carry ‘Social’ and/or equivalent labels such as ‘Healthcare’ or ‘Gender Equality’, and whose proceeds are applied to finance or re-finance eligible social projects.
- Sustainability Bonds are bonds that carry ‘Sustainability’ and/or equivalent labels such as ‘SDG’ or ‘Positive Impact’, and whose proceeds are applied to finance or re-finance a mix of eligible green and social projects.

Each FTSE Impact Bond Index Series consists of below variants based on the underlying index:

- FTSE Global Impact Bond Index (Global Impact)
- FTSE World Broad Investment-Grade Impact Bond Index (WorldBIG Impact)
- FTSE Euro Broad Investment-Grade Impact Bond Index (EuroBIG Impact)
- FTSE US Broad Investment-Grade Impact Bond Index (USBIG Impact)

Constituents are screened in accordance with the transparent and defined green, social and sustainability bond criteria leveraging data from Refinitiv and the Climate Bonds Initiative (CBI) to identify underlying bonds that comply with the corresponding international guidelines. Specifically, CBI data is used to identify eligible Green Bonds whose use of proceeds are in line with the Paris Agreement. Refinitiv data identifies eligible Social and Sustainability Bonds that are aligned with the core components of International Capital Markets Association (ICMA) Social Bond Principles (SBP) and/or ICMA Sustainability Bond Guidelines (SBG).

Figure 18. FTSE Impact Bond index series design criteria & methodology

		Global Impact	WorldBIG Impact	EuroBIG Impact	USBIG Impact
Base date		31st Dec, 2013			
Green eligibility		by the **Climate Bonds Initiative (CBI)** Green Bond Database			
Social eligibility		ICMA Social Bond Principles (SBP) alignment, assessed by **Refinitiv**			
Sustainability criteria		ICMA Sustainability Bond Guidelines (SBG) alignment, assessed by **Refinitiv**			
Currency		AUD, CHF, CNH, CNY, EUR, GBP, JPY, USD*	EUR, GBP, USD	EUR	USD
Quality		Investment Grade, High Yield, Non-rated*	Investment Grade	Investment Grade	Investment Grade
Amount outstanding		AUD 100 million	EUR 500 million	EUR 500 million	USD 250 million
		CHF 100 million	GBP 300 million		
		CNH 1 billion	USD 500 million		
		CNY 1 billion			
		EUR 500 million			
		GBP 200 million			
		JPY 20 billion			
		USD 250 million			
Minimum maturity		At least one year to maturity			
Weighting		Market capitalization			
June 2022 constituents	Impact	**1,563**	**973**	**689**	**230**
	Green Impact	1,053	636	480	138
	Social Impact	229	134	111	19
	Sustainability Impact	281	203	98	73

* No minimum S&P or Moody's rating requirements, non-rated bonds are included, defaulted bonds are excluded.

Figure 19. Top 10 issuers by market value in FTSE Global Impact Bond Index

Issuers	Number of bonds	Par Amount*	Market value*	Market value (%)	Sector	Country
Top 10 Green Impact Bond issuers	**93**	**251.46**	**222.77**	**16.55%**		
France, Republic of (Government)	2	48.34	43.92	3.26%	Domestic sovereign	France
KFW	14	34.85	32.21	2.39%	Agency	Germany
European Investment Bank	23	31.90	29.60	2.20%	Supranational	Supranational
Germany, Federal Republic of (Government)	4	28.92	25.32	1.88%	Domestic sovereign	Germany
European Union	2	24.64	20.36	1.51%	Supranational	Supranational
United Kingdom of Great Britain and Northern Ireland (Government)	2	21.12	18.06	1.34%	Domestic sovereign	United Kingdom
Societe du Grand Paris	9	21.43	16.06	1.19%	Agency	France
Tennet Holding BV	22	16.71	15.27	1.13%	Utility	Netherlands
ENGIE SA	14	12.37	11.20	0.83%	Utility	France
Belgium, Kingdom of (Government)	1	11.17	10.75	0.80%	Domestic sovereign	Belgium
Top 10 Social Impact Bond issuers	**113**	**243.78**	**212.63**	**15.80%**		
European Union	11	96.02	79.12	5.88%	Supranational	Supranational
Caisse Amortissement de la Dette Sociale	17	70.67	64.36	4.78%	Agency	France
UNEDIC	10	30.00	26.04	1.93%	Agency	France
Nederlandse Waterschapsbank NV	11	11.55	10.29	0.76%	Agency	Netherlands
East Nippon Expressway Co Ltd	34	8.78	8.73	0.65%	Industrial	Japan
Chile, Government of	7	10.15	8.17	0.61%	Foreign Sovereign	Chile
West Nippon Expressway Co Ltd	8	4.51	4.50	0.33%	Industrial	Japan
Korea Housing Finance Corp	6	4.34	4.15	0.31%	Covered	South Korea
Caixabank SA	4	4.29	4.03	0.30%	Finance	Spain
Cassa Depositi E Prestiti Spa	5	3.48	3.25	0.24%	Agency	Italy
Top 10 Sustainability Impact Bond issuers	**89**	**193.46**	**174.01**	**12.93%**		
International Bank for Reconstruction and Development	36	103.57	94.51	7.02%	Supranational	Supranational
International Development Association	12	21.68	19.34	1.44%	Supranational	Supranational
North-Rhine Westphalia, State of	9	16.34	14.31	1.06%	Regional Government	Germany

Inter-American Development Bank	4	10.01	9.00	0.67%	Supranational	Supranational
BNG Bank NV	8	9.77	8.73	0.65%	Agency	Netherlands
Agence Francaise de Developpement Epic	4	7.50	6.84	0.51%	Agency	France
Asian Infrastructure Investment Bank	3	6.76	6.28	0.47%	Supranational	Supranational
European Investment Bank	6	6.08	5.20	0.39%	Supranational	Supranational
Chile, Government of	4	6.00	5.17	0.38%	Foreign Sovereign	Chile
Alphabet Inc	3	5.75	4.62	0.34%	Finance	United States
Global Impact Bond Index	**1,563**	**1,495.59**	**1,346.02**	**100.00%**		

* Index data as of 31 May 2022. In USD billions.

About FTSE Russell

FTSE Russell is a leading global provider of benchmarks, analytics and data solutions with multi-asset capabilities, offering a precise view of the markets relevant to any investment process. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create investment funds, ETFs, structured products and index-based derivatives. FTSE Russell indexes also provide clients with tools for performance benchmarking, asset allocation, investment strategy analysis and risk management.

To learn more, visit ftserussell.com; email info@ftserussell.com; or call your regional Client Service Team office

EMEA
+44 (0) 20 7866 1810

North America
+1 877 503 6437

Asia-Pacific
Hong Kong +852 2164 3333
Tokyo +81 3 4563 6346
Sydney +61 (0) 2 8823 3521