Joint Committee on Climate Change

APPLICATION HANDBOOK FOR ISSUANCES OF

SUSTAINABLE AND RESPONSIBLE INVESTMENT LINKED SUKUK AND SUSTAINABILITY-LINKED BONDS

FOR THE MALAYSIAN CAPITAL MARKET

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Readers are strongly advised to cross-reference the information presented in this Handbook with guidelines and guidance documents such as the Securities Commission Malaysia's (SC) SRI-linked Sukuk Framework, the ASEAN Sustainability-Linked Bond Standards (SLBS), the International Capital Market Association (ICMA) Sustainability-Linked Bond Principles (SLBP), and the Guidance Handbook. This Handbook is **not intended** to replace or supersede any such original source materials.

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CHAPTER 1

INTRODUCTION

INTRODUCTION

1.0 BACKGROUND AND OBJECTIVES

Sustainability-Linked Fixed Income Instruments[1], comprising Sustainability-Linked Bonds (SLB) and Sustainability-Linked Sukuk (SLS), are one of the more recently introduced sustainability-themed financial instruments.

Globally, there has been an accelerated shift in prioritising sustainable development and transitioning towards net zero. This movement, driven by international commitments like the Paris Agreement and the United Nations Sustainable Development Goals (UN SDGs), has prompted a wide range of stakeholders and businesses to develop both short- and long-term strategies to meet these goals.

To realise these goals, companies require financing beyond conventional Use of Proceeds (UoP) instruments such as the Green, Social or Sustainability Bonds. Thus, the introduction of Sustainability-Linked Fixed Income Instruments can serve as valuable financial tools for issuers, encouraging companies to integrate sustainability-linked finance into their strategic planning.

These instruments also enable companies to raise capital while pursuing sustainable goals and meeting relevant targets. In Malaysia, the Sustainable and Responsible Investment Linked (SRI-linked) Sukuk Framework was introduced by the SC to facilitate such companies, including those in hard-to-abate sectors, to tap into the capital market to meet their sustainable finance needs.

International Capital Market Association (ICMA) Green Bond Principles and Sustainability Bond Guidelines also recognises transition as a theme which can be financed through either a UoP bond and / or an SLB. An SLB may be used as a general-purpose instrument that emphasises the issuer's sustainability strategy and predefined sustainability targets.

In Malaysia, issuances of Sustainability-Linked Fixed Income Instruments remain nascent, primarily due to lack of awareness and understanding regarding the processes involved. This includes challenges in accurately identifying Key Performance Indicators (KPIs) that effectively measure sustainability performance and in calibrating Sustainability Performance Targets (SPTs) that align with the issuer's overarching sustainability goals.

Therefore, this Handbook aims to provide a better understanding of the process in setting of KPIs and SPTs, supported by case studies across various sectors.

[1] For this Handbook, Sustainability-Linked Fixed Income Instruments refer to SLS and SLBs.

1.1 SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS MARKET

Sustainability-Linked Fixed Income Instruments allow businesses from diverse sectors, including high carbon-emitting industries, to access transition finance markets in mitigating adverse environmental impact associated with their operations.

UNDERSTANDING SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS

Sustainability-Linked Fixed Income Instruments are defined as bond or sukuk instruments for which the financial and/ or structural characteristics can vary depending on whether the issuer achieves the predefined sustainability or Environmental, Social and Governance (ESG) objectives.

These objectives are (i) measured through predefined KPIs and (ii) assessed against predefined SPTs.

KPIs are quantifiable metrics used to measure the performance of selected indicators. KPIs should be material to the issuer's core sustainability and business strategy, address relevant ESG challenges of the industry sector, and be under management's control. For example, an energy company might set CO_2 emissions reduction targets as a KPI to show its commitment to climate change mitigation. On the other hand, a pharmaceutical company could measure patients' accessibility to medicines in low- and middle-income countries as a more relevant KPI.

SPTs are measurable improvements in KPIs which issuers commit to within a predefined timeline. SPTs should be ambitious, material and where possible, benchmarked in consistency with the issuer's overall sustainability/ ESG strategy. For example, the energy sector may set an SPT to achieve a certain percentage reduction in CO_2 emissions within a specific time horizon.

As Sustainability-Linked Fixed Income Instruments are forward-looking and performance-based instruments, defining KPIs and SPTs ensure issuers are explicitly committing (including in the transaction documentation) to undertake measures to achieve their sustainability targets within a predefined timeline.

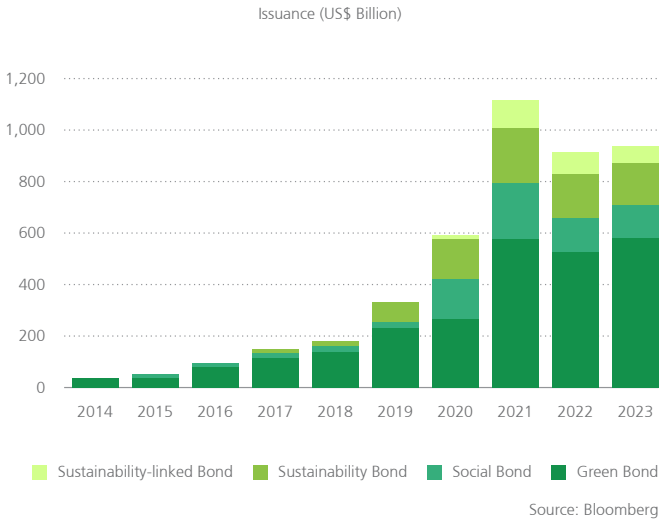
The varying financial/ structural characteristics of Sustainability-Linked Fixed Income Instruments also offer greater flexibility for issuers to utilise the proceeds for general corporate purposes instead of for specific projects identified at issuance. This versatility makes Sustainability-Linked Fixed Income Instruments a viable alternative to traditional green, social and sustainability fixed-income instruments.

GLOBAL LANDSCAPE OF THE SUSTAINABILITY-LINKED BONDS MARKET

In 2023, the global SLB market remained a small fraction of the sustainability-labelled bond market. Based on Bloomberg data,[2] SLBs had a total issuance of US$68 billion, representing a 7% share against a total issuance of US$939 billion in green, social, sustainability and sustainability-linked bonds as at end 2023 (Chart 1). Enbridge, a Canadian energy company, issued the largest SLB at US$2.3 billion in 2023.

As of 20 June 2024, SLB issuances have reached US$18 billion, which is just half of the US$34 billion recorded during the same period in 2023. The leading issuer in 2024 includes Enel, an Italian energy infrastructure firm, having raised US$3.9 billion. Following closely behind are Italian companies Autostrade per L'Italia, a road operator, and Snam, an energy firm, each raising around US$1 billion.[3]

CHART 1: SLB ISSUANCE (US$ BILLION)



Source: Bloomberg

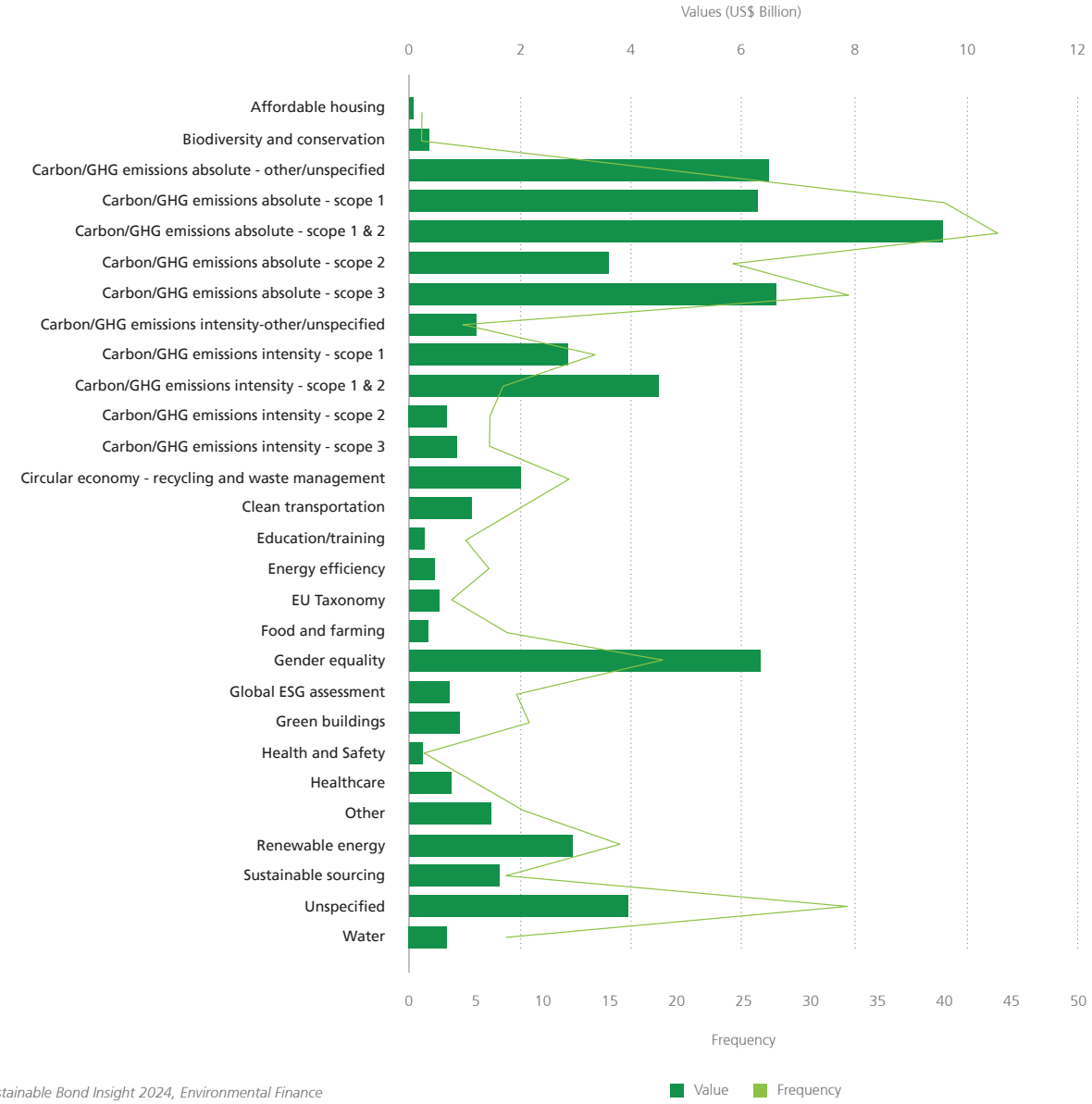
[2] Source: Bloomberg, 'Green Bonds Reached New Heights in 2023'. (8 February 2024).

[3] Source: Environmental Finance, 'SLBs: 2024 Issuance Slumps as Issuer Wariness Grows'. (21 June 2024).

While SLBs remain an important debt instrument to finance sustainability initiatives, especially transition efforts, it is crucial for issuers to ensure the credibility of their Sustainability-Linked Fixed Income Instruments to allay investors' concerns relating to KPI setting, ambition and target achievements.

According to research conducted by Environmental Finance (Chart 2), carbon emissions hold the distinction of being the most heavily funded KPI in terms of both absolute values and emission intensity in 2023.[4] This finding underscores the significant emphasis directed towards addressing and mitigating this specific emission within the broader environmental landscape.

CHART 2: BREAKDOWN OF SLB KPIs BY VALUE AND FREQUENCY IN 2023



Source: Sustainable Bond Insight 2024, Environmental Finance

GLOBAL LANDSCAPE OF SUSTAINABILITY-LINKED SUKUK MARKET

While still in its early stages, the global SLS market is experiencing notable growth, amid rising awareness of ESG considerations among issuers. Total volume of SLS has increased by around 50% in the first half of 2023 (US$ 6.7 billion) compared with 2022 (US$ 4.4 billion).[5] However, it should be noted that statistical data regarding SLS issuance is limited at the time of this Handbook's writing.

[4] Source: Environmental Finance, 'Sustainable Bond Insight 2024'.

[5] Source: 'S&P Global, Global Sustainable Bonds 2023 Issuance To Exceed $900 Billion' (14 September 2023).

1.2 SRI-LINKED SUKUK FRAMEWORK IN MALAYSIA

In August 2014, the SC released the SRI Sukuk Framework to facilitate the financing of Sustainable and Responsible Investment (SRI) initiatives, including green, social, and sustainability projects as well as the development of *waqf* projects. Since the issuance of the SRI Sukuk Framework, a broad range of projects including renewable energy, green building, affordable housing and healthcare has been financed through SRI Sukuk issuances in Malaysia. In facilitating Malaysia's needs to transition, a wider range of financing beyond the issuance of green, social and sustainability sukuk and bonds is needed.

To facilitate such financing needs, the SRI-linked Sukuk Framework was introduced in June 2022. The SRI-linked Sukuk Framework aims to facilitate companies, including those in hard-to-abate sectors, to tap into the capital market to meet their sustainable finance needs. The SRI-linked Sukuk Framework also enables companies to raise funds while committing to sustainability targets and improvements, thereby effectively addressing sustainability concerns.

LANDSCAPE OF MALAYSIA'S SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS MARKET

In Malaysia, five companies have issued SLS/SLBs, with a total outstanding amount of RM8.6 billion (Table 1) as at end-October 2024. Sustainability-Linked Fixed Income Instruments make up an estimated 13%* of the total outstanding sustainability-labelled sukuk/bonds in Malaysia, based on RAM Sustainability's database.

**Note: The data provided are based on the best available sources and information as of end-October 2024.*

TABLE 1: SLS/SLB ISSUANCES IN MALAYSIA AS AT END-OCTOBER 2024

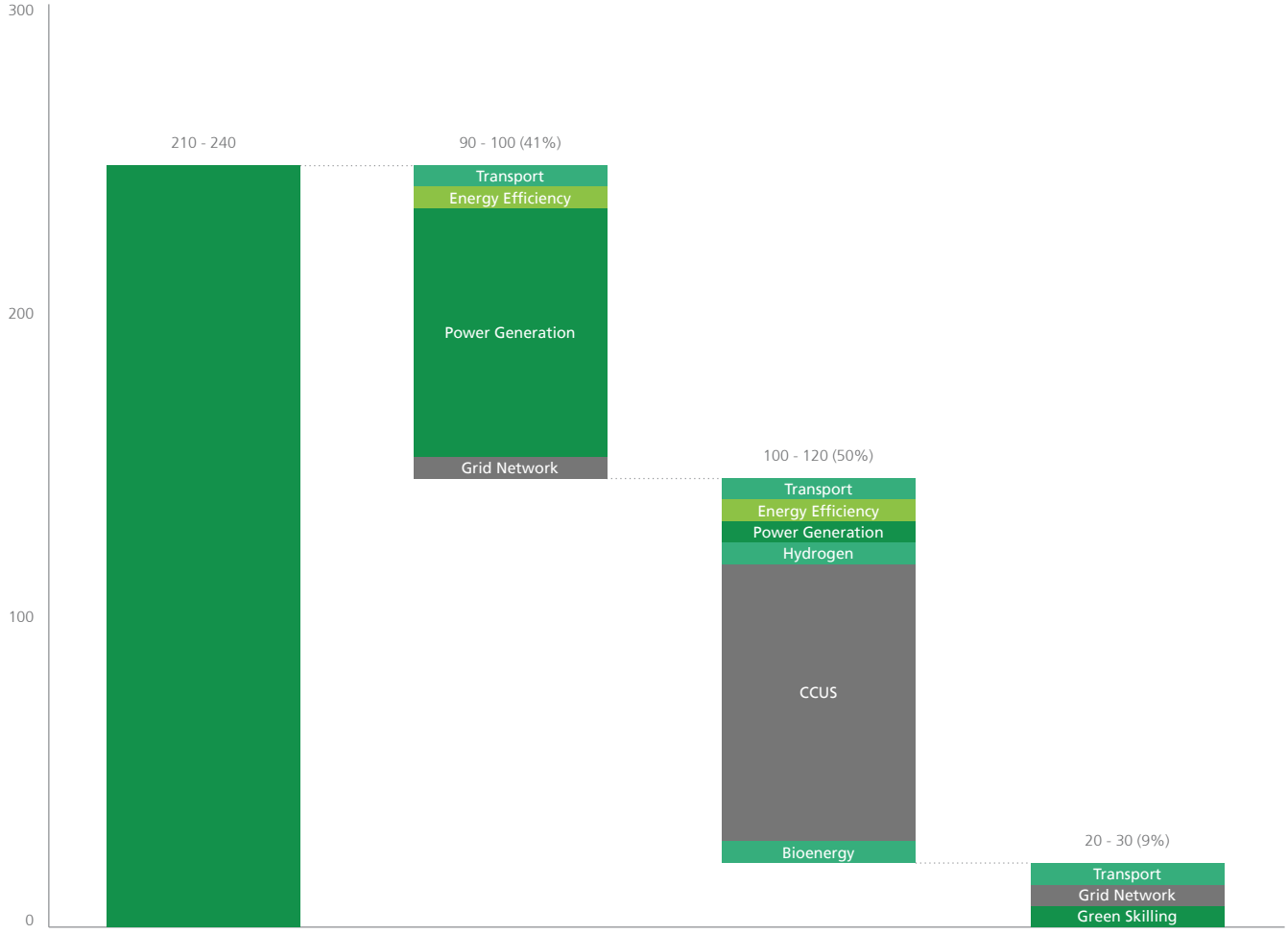
STAGE	ISSUER	NAME OF INSTRUMENT	OUTSTANDING AMOUNT (RM BILLION)	EXTERNAL REVIEW	SUSTAINABILITY PERFORMANCE TARGETS	PRINCIPAL ADVISER
1	Yinson Holdings Bhd	RM1.0 billion Sustainability-linked Sukuk Wakalah Programme	1.0	Y	This SLS is tied to three SPTs which are to be achieved by 31 Jan 2025. The three performance targets are to increase renewable energy generation, reduce carbon intensity per barrel of oil equivalent and decrease carbon intensity per MWh.	HSBC Amanah Malaysia Bhd
2	SunREIT Bond Bhd (formerly known as SunREIT Unrated Bond Bhd)	RM10.0 billion Medium-Term Notes (MTN) Programme	2.9	Y	This SLB features a pricing adjustment mechanism benchmarked against the achievement of pre-determined SPTs. The SPTs measure the improvement in Sunway Real Estate Investment Trust's (REIT) sustainability goals, including sourcing energy requirements and achieving and maintaining a minimum Building Energy Intensity (BEI) score.	OCBC Bank (Malaysia) Bhd
3	Hap Seng Management Sdn Bhd	RM10.0 billion MTN Programme	4.1	N	The SLBs were structured in accordance with the ICMA's Sustainability-Linked Bond Principles (SLBP) and featured a variable interest rate adjustment mechanism based on the achievement of predetermined SPTs. The SPTs selected are intended to incentivise the reduction of water and electricity consumption, as well as to encourage the use of solar energy and recycling of rainwater.	OCBC Bank (Malaysia) Bhd
4	Cenviro Sdn Bhd	RM1.0 billion Islamic MTN Sukuk Wakalah Programme	0.5	Y	This SLS is tied against the reduction in greenhouse gas (GHG) emission intensity target by 2025 and in line with its 5-year GHG Reduction Roadmap.	RHB Investment Bank Bhd
5	Paramount Corporation Bhd	RM1.0 billion Islamic MTN Programme	0.1	Y	The SLS was structured in accordance with the ICMA SLBP and the SC's SRI-linked Sukuk Framework. This SLS is tied against the percentage of cumulative gross floor area assigned with green certification; the percentage of cumulative construction sites certified; and the reduction of GHG emissions intensity covering Scopes 1 and 2.	AmInvestment Bank Bhd

Source: RAM Sustainability and BIX Malaysia.

Similar to global trends, the focus on energy transition by the Malaysian government under the National Energy Transition Roadmap (NETR) is expected to drive the growth of sustainability-linked financing going forward. NETR estimated that Malaysia will require an investment of RM1.2 trillion-RM1.3 trillion by 2050 to finance renewable energy, energy efficiency, green mobility, hydrogen, carbon capture, utilisation and storage (CCUS) technologies and green skilling programmes. In the short-term (2023-2029), the estimated investment required is RM210 billion-RM240 billion, and that can be partially mobilised through sustainable finance, including sustainability-linked sukuk and other financing mechanisms (Figure 1).

FIGURE 1: SHORT-TERM NATIONAL ENERGY TRANSITION FINANCING NEEDS

Estimated investments required (2023-2029), RM Billion



	Commercially viable / Market-rate return / Lower risk	Marginally bankable / Below market rate return / higher risk	No financial return
POTENTIAL POOLS OF CAPITAL	• Domestic banks & FIs • GLICs/SWFs • Green FDI • Large domestic corporations • VC/Early-stage funding	• Public catalytic funding (blended finance, innovation finance) • MDBs/DFIs • GLICs/SWFs	• Public direct funding
ENABLING POLICY INITIATIVES	• Sector-specific policy implementation • Attract green FDI • Mobilize sustainable finance (e.g, sustainability-linked sukuk, green taxonomies)	• National Energy Transition Facility • MDB/DFI partnerships • Rationalise fuel subsidies	• Rationalise fuel subsidies • Gradual carbon pricing

Source: Ministry of Economy, Malaysia, NETR, 29 August 2023.

Note:
Financial Institution (FI), Government Link Investment Company (GLIC), Sovereign Wealth Funds (SWF)
Foreign Direct Investment (FDI), Venture Capital, Multilateral Development Bank (MDB), Development Finance Institution (DFI)

1.3 COMPARISON OF SRI-LINKED SUKUK FRAMEWORK TO OTHER PRINCIPLES AND STANDARDS

GLOBAL PRINCIPLES AND REGIONAL STANDARDS

ICMA SLBP provides guidance to market participants on recommended structuring features, disclosure and reporting for issuance of SLBs. The recent revision of the SLBP includes clarifications on selection of KPIs and references the KPI Registry, which provides guidance to distinguish between core and secondary KPIs.

Whereas the ASEAN Sustainability-Linked Bond Standards (SLBS) was developed by the ASEAN Capital Markets Forum (ACMF) to facilitate the role that sustainability-linked bonds can play in funding companies that contribute to sustainability. With an aim to enhance transparency, consistency and uniformity of ASEAN SLBs, the ASEAN SLBS will also contribute to the development of a new asset class, reduce due diligence cost, and help investors to make informed investment decisions.

The standard issuance process for an issuer consists of the following:

- Identification and Selection of KPIs and SPTs
- Development of the Sustainability-Linked Fixed Income Instruments Framework
- Compliance with the Relevant Regulatory Requirements
- Pre-Issuance External Review
- Issuance of Sustainability-Linked Fixed Income Instruments
- Monitoring and Reporting of Sustainability Performance
- Post-Issuance External Review and Verification

The comparison of ICMA SLBP, ASEAN SLBS and SRI-linked Sukuk Framework are as follows:

TABLE 2: COMPARISON OF ICMA SLBP, ASEAN SLBS AND SRI-LINKED SUKUK FRAMEWORK

KEY ASPECTS	ICMA SLBP	ASEAN SLBS	SRI-LINKED SUKUK FRAMEWORK
Consists of five Core Components: I. Selection of KPIs II. Calibration of SPTs III. Bond/ Sukuk Characteristics IV. Reporting V. Verification	✓	✓	✓
Explanation on the selection of KPIs must be consistent with the overall issuer's sustainability strategy or policies but also reflecting the most material strategic dimensions for the issuers	✓	-	-
Explanation on the selection of KPIs and SPTs from sovereign issuers' perspective	✓	-	-
Eligible issuers must have geographical or economic connection to a particular region	-	✓	-
Disclosure of SLB/SLS information throughout SLB/SLS tenure on a designated website	-	Mandatory	Mandatory

KPI alignment with UN SDGs	-	Recommended	-
Appointment of a pre-issuance external reviewer to assess and provide a report on the issuer's compliance with the requirements under respective guidelines. The review shall/should include the following assessment: I. relevance, robustness and reliability of the selected KPIs; II. rationale and level of ambition of the proposed SPTs; III. relevance and reliability of selected benchmarks and baselines; and IV. credibility of the strategy outlined to achieve the SPTs, based on scenario analyses, where relevant.	Recommended	Mandatory	Mandatory
Publication of pre-issuance external review report	Recommended	Mandatory on designated website	Mandatory on designated website
In cases where no Second Party Opinion is sought, issuers are to demonstrate or develop the internal organisational expertise to verify their methodologies. Issuers Voluntary Process Guidelines recommends to thoroughly document any such expertise, including the related internal processes and expertise of their staff. This documentation should be communicated to investors.	Recommended	-	-
Appointment of external reviewer for annual post-issuance verification	Mandatory	Mandatory	Mandatory
Publication of post-issuance verification report	Mandatory	Mandatory on designated website	Mandatory on designated website

Source: ICMA SLBP, ASEAN SLBS and SRI-linked Sukuk Framework

SRI SUKUK FRAMEWORK

In 2014, the SC released the SRI Sukuk Framework which provided guidance to companies in financing eligible green, social, sustainability and *waqf* projects through sukuk issuances. The SRI Sukuk Framework incorporated both sustainability and Islamic principles for sustainability financing and was benchmarked against global guiding principles. The Framework was further revised in 2019 for alignment with regional standards issued by the ACMF.

DIFFERENCES BETWEEN SRI-SUKUK AND SRI-LINKED SUKUK FRAMEWORK

SRI Sukuk and SRI-linked Sukuk are two distinct instruments.

A key difference between an SRI Sukuk and an SRI-linked Sukuk is the way proceeds are utilised. SRI Sukuk proceeds will be applied exclusively for funding of any activities or transactions relating to the eligible SRI projects.[6] While SRI-linked Sukuk proceeds can be utilised for general purposes, subject to the issuer committing to future improvements in sustainability outcomes within a predefined timeline, which will be monitored using KPIs. The financial characteristic or structural element of the SRI-linked Sukuk may be varied based on the success or performance of the issuer in meeting its KPIs and SPTs.[7]

For example, a company issues an SRI-linked sukuk with a baseline profit rate of 5% per annum. The selected KPI is a reduction in CO_2 emission to 50 million tonnes in Year 3. If this KPI is achieved, the profit rate will be reduced by 25 basis points (b.p.). In Year 3, the external verifier confirms that the CO_2 emission target has been achieved. The profit payment is then reduced to 4.75% as incentive for achieving the KPI.[8]

[6] Source: SC, 'Sustainable and Responsible Investment Sukuk Framework, An Overview.' (November 2019).

[7] Source: SC Releases New Sukuk Framework to Facilitate Companies' Transition To Net Zero (30 June 2022).

[8] Source: SC, 'Frequently-Asked Questions Sustainable and Responsible Investment Linked (SRI-Linked Sukuk Framework)' (30 June 2022).

Other distinctions between SRI Sukuk and SRI-linked Sukuk are illustrated in Table 3.

TABLE 3: COMPARISON OF THE SC'S SRI SUKUK FRAMEWORK AND SRI-LINKED SUKUK FRAMEWORK

	SRI SUKUK FRAMEWORK	SRI-LINKED SUKUK FRAMEWORK
Utilisation of Proceeds	To exclusively fund activities or transactions relating to Eligible SRI Projects: • Green projects; • Social projects; • Combination of Green and Social projects; and • *Waqf* projects that relate to the development of *waqf* properties.	Can be used for general or working capital purposes.
Sukuk Characteristics	Can use applicable or relevant sukuk financial structure.	The financial and/or structural characteristics vary depending on whether the issuer achieves the predefined sustainability targets during the tenure of the sukuk.
Core Components	I. Utilisation of proceeds; II. Process for project evaluation and selection; III. Management of proceeds; and IV. Reporting.	I. SRI-linked sukuk characteristics II. Selection of KPIs III. Calibration of SPTs IV. External review V. Reporting
Reporting Requirements	Annual reporting of: • The original amount allocated for Eligible SRI projects; • The amount utilised for Eligible SRI projects; • The unutilised amount and where such unutilised amount is placed or invested pending utilisation; and • The list of the Eligible SRI projects in which the SRI Sukuk proceeds have been allocated to and a brief description of the said Eligible SRI projects and their impact or expected impact, including the key underlying methodology or assumptions used to determine the impact or expected impact.	Annual reporting of: • Performance of KPI, including baselines • Any information to assess and monitor the progress or relevancy of the selected KPIs and SPTs • Changes in issuer's strategy which may impact the KPIs and SPTs.
External Review	Under the *Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework* (LOLA Guidelines), an external reviewer may be appointed to assess the Eligible SRI Projects or the issuer's compliance with the requirements under the SRI Sukuk Framework. However, under the *Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors* (Retail Bond Guidelines), the appointment of an external review is mandatory.	**Pre-issuance:** An external reviewer must be appointed to provide an opinion on the issuer's compliance with the requirements under the SRI-linked Sukuk Framework. **Post-issuance:** An independent verifier must be appointed to provide a verification report on the issuer's performance level against each SPT for each KPI. The verification must be carried out at least annually during the predefined timeline until the last SPT trigger event of the sukuk.

Source: SC's SRI Sukuk Framework and SRI-linked Sukuk Framework

1.4 CHALLENGES IN ISSUING SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS AND POTENTIAL RECOMMENDATIONS

Globally, SLBs have gained traction in sustainable finance as organisations seek to align their capital-raising activities with sustainability goals. These bonds are unique as their financial terms are tied to predefined sustainability targets, making them a powerful tool for incentivising responsible corporate behaviour. Nonetheless, issuance of SLBs have faced challenges such as:

I. DATA AVAILABILITY AND QUALITY

To assess and monitor sustainability performance, issuers rely on accurate and timely data. Many companies face challenges in collecting and reporting such data, especially in industries where sustainability metrics are not yet well-established. Ensuring data quality and consistency is crucial to promote investor confidence in Sustainability-Linked Fixed Income Instruments. For example, Scope 3 emission disclosures are material to a company's GHG reduction goals. However, lack of access to comprehensive emission data from its operational value chain may impede target settings for Sustainability-Linked Fixed Income Instruments.[9]

II. LACK OF METRIC COMPARABILITY, RELEVANCE AND AMBITION

Research has shown that the lack of metric comparability, relevance, and ambition are some of the challenges for Sustainability-Linked Fixed Income Instruments.[10] These are described as follows:

- Metric comparability: As the Sustainability-Linked Fixed Income Instrument market is relatively new, there is no standard set of metrics by which to track issuer's performance. The KPIs and SPTs are currently unique to each individual issuer, which may limit comparability of one set of KPIs or SPTs to another.
- Metric relevance: Relevant KPIs may vary depending on an issuer's industry, business model, geography, and sustainable trajectory. In some cases, metrics set by an issuer may not apply to a material part of its business.
- Metric ambition: Defining, setting, and monitoring sustainability targets can be a complex process. Determining which targets are relevant for a specific issuer's industry and business model requires careful consideration. The KPIs and SPTs may not be overly ambitious or aggressive and may not demonstrate a significant improvement over an issuer's business-as-usual strategy.

III. POTENTIAL ESG-WASHING

It has also been highlighted that Sustainability-Linked Fixed Income Instrument proceeds are utilised for general purposes with no requirement for tracking of their use.[11] This could lead to proceeds funding projects that do not have a clear beneficial impact especially when inaccurate or misleading sustainability metrics i.e., KPIs and SPTs. In an era where corporate responsibility is under constant scrutiny, stakeholders including customers, employees, and the broader community, are conscious of organisations' environmental and social impact. Hence, any perception of greenwashing can harm a company's reputation.

IV. POTENTIAL INCREASE IN FUNDING COST

The standard penalty structure includes a step-up mechanism, requiring issuers to pay a higher coupon/profit rate if they fail to meet predefined targets. This step-up feature in SLBs, where the coupon rate increases if the issuers fail to meet sustainability targets, can be problematic from a credit perspective. During financial stress such as economic downturns or other adverse events, the increased coupon payments could strain the issuers' liquidity position, potentially causing the issuer difficulties in meeting its financial obligations.

Enel, one of the world's top SLB issuers, has nine SLBs with observation dates in 2023 that are linked to Scope 1 emissions intensity reduction target.[12] Failure to meet its goal would result in the coupon rate of these SLBs rising 25 b.p., costing Enel about EUR80 million in increased interest costs over the lifetime of the bonds, according to the energy group's calculations.

[9] Source: https://www.responsible-investor.com/slb-market-shows-maturity-as-step-ups-and-target-achievement-evolves.

[10] Source: 'S&P Global Ratings, Environmental, Social, And Governance: How Sustainability-Linked Debt Has Become A New Asset Class', (28 April 2021).

[11] Source: S&P Global Ratings, 'Environmental, Social, And Governance: How Sustainability-Linked Debt Has Become A New Asset Class', (28 April 2021).

[12] Source: S&P Global Ratings, 'Higher Costs Loom for Sustainability-Linked Bond Issuers as Deadlines Approach', (16 May 2023).

Enel recently missed its SPT set for 2023, according to a report by Sustainable Fitch.[13] The goal was to reduce the company's Scope 1 emissions intensity from 229g of CO_2 equivalent per kilowatt-hour (gCO_2eq/kWh) in 2022 to 148g CO_2eq/kWh by the end of 2023. However, the final report revealed that Enel only achieved 160g CO_2eq/kWh. As a consequence, the coupon rate was increased by 25 b.p. (0.25%), resulting in an estimated additional interest cost of around EUR25 million for Enel.

For further insights, please refer to Chapter 5.1, which discusses the financial/structural variations of Sustainability-Linked Fixed Income Instruments.

V. FINANCIAL PENALTY

The financial penalty for failing to meet the predetermined targets may not be material enough to encourage the issuer to deliver on its goals or track frequently and/or reliably enough to ensure it demonstrates significant sustainability performance improvements over the instrument's tenure.

Several initiatives as outlined below may be able to mitigate these challenges.

I. SUPPORT FOR DATA AVAILABILITY, QUALITY AND COMPARABILITY IS UNDERWAY

Data availability, quality and comparability are expected to improve over time as global, regional and domestic requirements for transparency and reporting of carbon emissions increases, especially through the adoption of the International Financial Reporting Standards (IFRS) S1 General Requirements for Disclosure of Sustainability-related Financial Information (IFRS S1) and IFRS S2 Climate-related Disclosures (IFRS S2) issued by the International Sustainability Standards Board (ISSB) (collectively referred to as the ISSB Standards).

Domestically, Malaysia recently announced the National Sustainability Reporting Framework (NSRF), using the ISSB Standards as the baseline sustainability disclosure standards for companies in Malaysia, as well as the assurance requirements for sustainability reporting.[14]

Implementation of the NSRF will be through a phased and developmental approach, supporting widespread adoption and continuous improvement in the quality of disclosures. The NSRF attempts to follow the ISSB Standards closely as well as providing the same reliefs prescribed by the ISSB, subject to the respective regulators' requirements. However, given the varying levels and maturity in sustainability practices and reporting, the NSRF spreads the adoption timeline to take into account the anticipated challenges.

Additionally, the Joint Committee on Climate Change (JC3) has created a Climate Data Catalogue to serve as a reference for financial institutions, offering climate and environmental data that can aid in decision-making and facilitate comparison. The data catalogue references data sources on GHG emissions, energy, climate-related index and scoring, etc.[15] Meanwhile, the Bursa Malaysia Centralised Sustainability Intelligence (CSI) Solution platform has been developed to support corporate ESG data management and sustainability reporting in line with local and international standards.[16]

II. BUILDING SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS' CREDIBILITY THROUGH EXTERNAL OR INDEPENDENT REVIEWS

External reviews also play a crucial role in providing credibility to Sustainability-Linked Fixed Income Instruments through Second Party Opinions and independent verifications of SPTs.

The scope of work for a Second Party Opinion typically encompasses provision of independent review on the adherence of issuers' SLB/SLS frameworks to the five core components of established principles and guidelines from bodies such as SC, ACMF and ICMA to reduce any sustainability-washing risks.

Meanwhile, the issuers' sustainability performance against set targets are independently verified through an annual external review. The resulting report, which is made publicly available, serves to add credibility to the issuer's performance. In this regard, the SC's SRI Sukuk and Bond Grant Scheme provides support to issuers on actual external review cost (refer to Chapter 6).

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[13] Source: Sustainable Fitch, 'Enel's Missed Targets Could Support Maturing SLB Market' (29 April 2024).

[14] Source: National Sustainability Reporting Framework | Securities Commission Malaysia.

[15] Source: https://www.jc3malaysia.com/data-catalogue (JC3, 2024).

[16] Source: https://www.bursamalaysia.com/trade/our_products_services/csip/overview (Bursa, 2024).

CHAPTER 2

SUGGESTED STEPS TO SET KPIs AND SPTs

SUGGESTED STEPS TO SET KPIs AND SPTs

Below are the summary of steps for setting KPIs and SPTs as provided in the SRI-linked Sukuk Framework:

FIGURE 1: SUMMARY OF STEPS FOR SETTING KPIs AND SPTs

KPIs			SPTs	
STAGE 1	**STAGE 2**	**STAGE 3**	**STAGE 4**	**STAGE 5**
IDENTIFY	**ASSESS**	**DISCLOSE**	**TIME**	**BENCHMARK**
Identify relevant KPIs which are: A. significant to the issuer's sustainability and business strategy; B. address relevant ESG challenges in the issuer's industry; and C. are within the issuer's control.	Assess that the selected KPIs are: A. relevant, core and material to the issuer's overall business, and of high strategic significance to the issuer's current and/or future operations; B. measurable or quantifiable on a consistent methodological basis; C. externally verifiable; and D. able to be benchmarked as much as possible using an external reference or definition to facilitate the assessment of the SPT's level of ambition.	An issuer may select any previous or existing KPIs that the issuer has set for itself subject to the following: A. the KPIs must have been made available to the public in any of the issuer's publications, such as in the issuer's annual reports, sustainability reports or other non-financial disclosure reports; or B. in the case where the KPIs were not made available to the public, the KPIs' values must be externally verified to the extent possible, for a period covering at least the three most recent years.	An issuer must set out the SPTs, which are measurable targets of improvement over a predefined timeline, for each of the KPIs.	The SPTs selected must be: A. ambitious yet realistic; B. a material improvement in the respective KPIs and be beyond a 'Business as Usual' trajectory; C. comparable to a benchmark or an external reference, where possible; D. consistent with the issuers' overall sustainability, business and ESG strategy; and E. set before, or concurrently with, the issuance of the SRI-linked sukuk.

Source: SC's SRI-linked Sukuk Framework.

CHAPTER 3

DEEP DIVE INTO THE SELECTION OF KPIs

DEEP DIVE INTO THE SELECTION OF KPIs

3.0 REQUIREMENTS AND COMPONENTS OF SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS FRAMEWORK

Chapter 3 delves into the KPI selection process, examining how to select KPIs that are relevant, core, and material to the issuer's overall business. It explores the criteria for determining which KPIs are material, differentiating between core and secondary KPIs, and provides key references and methodologies for developing KPIs.

To enhance the credibility of SLS issuances, the SRI-linked Sukuk Framework, which is part of the *Guidelines on Unlisted Capital Market Products under the Lodge and Launch Framework (LOLA Guidelines)* and *Guidelines on Issuance of Corporate Bonds and Sukuk to Retail Investors*, provides the KPI selection requirements by issuers.

The SC's LOLA Guidelines Chapter 9, guidance to Paragraph 9.10 states the following:

The KPI(s) selected should be:

(a) relevant, core and material to the issuer's overall business, and of high strategic significance to the issuer's current and/or future operations;

(b) measurable or quantifiable on a consistent methodological basis;

(c) externally verifiable; and

(d) benchmarked as much as possible using an external reference or definition to facilitate the assessment of the SPT's level of ambition.

3.1 RELEVANT, CORE AND MATERIAL KPIs

WHAT IS RELEVANT AND MATERIAL?

Reference can be drawn from ICMA's Guidance Handbook which provides some guidance below:

Paragraph 4.2.1 The notion of materiality is multi-faceted and can be understood from a few different vantage points:

- an economic lens or a strategic planning exposure - the E and/or S and/or G issues captured by the chosen KPIs should have the greatest impact on the relevant activity, strategic orientation and the issuer's operational and potentially financial performance, and/or
- a sustainability standpoint - the ESG issues captured by the KPIs have the highest impact on the environment and/or society, whether to internal or external stakeholders.

HOW TO DETERMINE MATERIALITY?

Reference can be drawn from ICMA's Illustrative KPIs Registry to identify sector materiality matrix.

HOW TO DETERMINE CORE AND SECONDARY?

ICMA's Illustrative KPIs Registry (Registry) includes a suggested sustainability 'materiality matrix' by sector, and provides core and secondary KPIs by sector, as well as an indicative list of global benchmarks for suggested KPIs.

KPIs are classified into two categories:

- **Core:** KPI is generally material, relatively mature and holistic enough, and can, in principle, be used as a standalone.
- **Secondary:** The KPI does not necessarily constitute a commitment to change the issuer's business as usual trajectory fundamentally, is partly material or is not sufficiently mature (e.g., limited market adoption, major data quality or methodological issues).

The Registry encourages issuers to select at least one core KPI. In the event a core KPI is not feasible and/or applicable on a given sustainability theme, related secondary KPIs are therefore suggested to be used only as part of a basket as long as they would effectively add up to the equivalent of a core KPI.

TABLE 1: EXAMPLES OF CORE KPIs BY ENERGY SECTOR

SECTOR	SUB-SECTOR	SUSTAINABILITY THEME	POTENTIAL KPIs	CORE
Energy	General	Climate change (GHG emissions and energy)	Scope 1, 2 and 3 GHG emissions (absolute/intensity) Scope 1, 2 and/or 3 GHG emissions reduction	Core
Energy	O&G Exploration & Production O&G Storage & Transportation Integrated O&G	Air quality	Emissions of Volatile Organic Compounds (VOCs), Sulphur oxides (So_x), Nitrogen oxides (No_x), Particulate matter (PM), Carbon monoxide (CO), Ozone depleting substances (ODS), and other air emissions with an environmental impact including hazardous air pollutants (HAP), such as benzene (C_6H_6) and hydrogen sulphide (H_2S), and ozone (O_3)	Core

Source: ICMA's Illustrative KPIs Registry.

TABLE 2: EXAMPLES OF SECONDARY KPIs BY ENERGY SECTOR

SECTOR	SUB-SECTOR	SUSTAINABILITY THEME	POTENTIAL KPIs	CORE
Aviation	Aircraft Manufacturers	Air quality	Emissions of NOx, SOx and/or other pollutants (absolute or intensity)	Secondary
Aviation	Aircraft Manufacturers	Air quality	Percentage of aircraft produced annually that meet 2004 ICAO CAEP/6 or the stricter CAEP/8 emissions standards for NOx (%)	Secondary
Aviation	Airlines	Climate change (GHG emissions and energy)	Percentage use of Sustainable Aviation Fuels (%)	Secondary
Aviation	Airlines	Climate change (GHG emissions and energy)	Proportion of fleet renewal with zero emissions / certified / best-in-class aircrafts (%)	Secondary
Aviation	Airlines	Occupational Health and Safety	Occupational accident/incident rate including employees, temporary workers and sub-contractors (frequency rate, lost time injury frequency rate, total recordable incident rate)	Secondary
Energy	General	Climate change (GHG emissions and energy)	Amount/share in bio refinery capacity, biofuels and/or biogas	Secondary
Energy	General	Community and Human Rights	Expenditure on locally sourced goods and services	Secondary
Energy	General	Community and Human Rights	Local employees in total workforce, in target countries or regions	Secondary

Energy	General	Occupational Health and Safety	Occupational accident/incident rate including employees, temporary workers and sub-contractors (frequency rate, lost time injury frequency rate, total recordable incident rate)	Secondary
Energy	General - Renewable	Supply chain	Percentage of suppliers assessed/selected based on environmental and social criteria and supply chain risks (%)	Secondary
Metals and Mining	Extraction/ Production/ Manufacture of Metals and Ores	Air quality	Emissions of volatile organic compounds (VOCs), sulphur oxides (SOx), nitrogen oxides (NOx), particulate matter (PM), carbon monoxide (CO), mercury (Hg), and lead (Pb)	Secondary
Metals and Mining	Extraction/ Production/ Manufacture of Metals and Ores	Waste	Percentage of increase in hazardous and non-hazardous waste recycled	Secondary
Metals and Mining	Extraction/ Production/ Manufacture of Metals and Ores	Waste	Percentage of reduction in weight of hazardous waste generated	Secondary
Metals and Mining	Extraction/ Production/ Manufacture of Metals and Ores	Water	Fresh water withdrawn/consumed [absolute or intensity (in m^3 per ton of output produced and/or US$)]	Secondary
Metals and Mining	Extraction/ Production/ Manufacture of Metals and Ores	Climate change (GHG emissions and energy)	Percentage of increase on renewable energy consumption vs. total energy consumption	Secondary
Transportation	Public Transportation	Access and affordability	Expansion of mobility services (per km per unit service or km per space or km per passengers or access to public transport)	Secondary
Transportation	Public Transportation	Access and affordability	Expansion, affordability, inclusivity and quality of mobility services (per km per unit service or km per space or km per passengers or access to public transport)	Secondary
Transportation	Public Transportation	Air quality	Pollutants emissions from fleet in absolute or intensity terms (per 100km travelled or per passenger km)	Secondary
Transportation	Public Transportation	Climate change (GHG emissions and energy)	Percentage of environmental friendly fleet (non-fossil fuel powered)	Secondary
Transportation	Public Transportation	Climate change (GHG emissions and energy)	Avoided tonnes of CO_2	Secondary
Transportation	Toll Roads	Climate change (GHG emissions and energy)	Percentage of electrical vehicle charging stations along entire network	Secondary
Utilities	Electricity	Access and affordability	Population in [developing countries or underserved regions] with access to free / subsidised electricity / essential services	Secondary
Utilities	Electricity	Climate change (GHG emissions and energy)	Avoided GHG emissions	Secondary
Utilities	Electricity	Occupational Health and Safety	Occupational accident / incident rate including employees, temporary workers and sub-contractors (frequency rate, lost time injury frequency rate, total recordable incident rate)	Secondary
Utilities	Electricity	Water	Decrease freshwater consumption	Secondary
Utilities	Waste	Climate change (GHG emissions and energy)	Total energy generated from sewage sludge (CHP and biomethane exported to gas grid as GWh equivalent)	Secondary
Utilities	Waste	Waste	Recycled plastic (in thousands of tonnes)	Secondary

Source: ICMA's Illustrative KPIs Registry.

TABLE 3: EXAMPLES OF CORE AND SECONDARY KPIs BY SOVEREIGN

SECTOR	SUSTAINABILITY THEME	POTENTIAL KPIs	CORE VS SECONDARY
Sovereign	Access and affordability	Access to electricity (% of population), by urban/rural (%)	Core
Sovereign	Access and affordability	Completion rate (primary education, lower secondary education, upper secondary education)	Core
Sovereign	Biodiversity (incl. soil/land use)	Area of restored wetland in relation to the overall natural area of the country (ha or %)	Secondary
Sovereign	Biodiversity (incl. soil/land use)	Average proportion of Freshwater Key Biodiversity Areas (KBAs) covered by protected areas (%)	Secondary

Source: ICMA's Illustrative KPIs Registry.

ADDITIONAL REFERENCES IN DEVELOPING KPIs

In addition to ICMA's Illustrative KPIs Registry, issuers can also refer to ICMA's Guidance Handbook and the World Bank's List[17] when determining relevant KPIs for the organisation.

TABLE 4: LIST OF POTENTIAL KPIs FOR SOVEREIGN SLBs

ENERGY INDICATORS

- Proportion of population with access to electricity, by urban/rural (%)
- Proportion of population with primary reliance on clean fuels and technology (%)
- Renewable energy share in the total final energy consumption (%)
- Energy intensity level of primary energy (megajoules per constant 2017 purchasing power parity GDP)
- Installed renewable electricity-generating capacity (watts per capita)
- PM2.5 air pollution, mean annual exposure (micrograms per cubic meter)
- PM2.5 air pollution, population exposed to levels exceeding WHO guideline value (% of total)
- Adjusted net savings, including particulate emission damage (% of GNI)
- Electricity production from coal sources (% of total)
- Energy imports, net (% of energy use)
- Energy use (kilogram of oil equivalent per capita)
- Fossil fuel energy consumption (% of total)
- Renewable electricity output (% of total electricity output)

CLIMATE INDICATORS

- Country has Adaptation Communications (Yes/No)
- Country has a National Adaptation Plan (Yes/No)
- Country has a Nationally Determined Contribution (Yes/No)
- Party has a net-zero emission target
- Party has an economy-wide target in a national law or policy
- Party intends to enhance ambition or action in their NDCs
- Party has submitted long-term strategies
- Total greenhouse gas emissions without LULUCF for Annex I Parties (Mt CO_2 equivalent)
- Total greenhouse gas emissions without LULUCF for non- Annex I Parties (Mt CO_2 equivalent)
- Total greenhouse gas emissions from LULUCF for Annex I Parties (Mt CO_2 equivalent)
- Total greenhouse gas emissions from LULUCF for non- Annex I Parties (Mt CO_2 equivalent)
- Total greenhouse gas emissions per capita (Mt CO_2 equivalent per capita)
- Total greenhouse gas emissions per gross domestic product (Mt CO_2 equivalent per GDP)

BIODIVERSITY INDICATORS

- Proportion of fish stocks within biologically sustainable levels (not overexploited) (%)
- Average proportion of Marine Key Biodiversity Areas (KBAs) covered by protected areas (%)
- Forest area (thousands of hectares)
- Forest area as a proportion of total land area (%)
- Land area (thousands of hectares)
- Arable land (% of land area)
- Average proportion of Freshwater Key Biodiversity Areas (KBAs) covered by protected areas (%)
- Average proportion of Terrestrial Key Biodiversity Areas (KBAs) covered by protected areas (%)
- Above-ground biomass stock in forest (tonnes per hectare)
- Forest area annual net change rate (%)
- Forest area under an independently verified forest management certification scheme (thousands of hectares)
- Proportion of forest area under a long-term management plan (%)
- Proportion of forest area within legally established protected areas (%)
- Average proportion of Mountain Key Biodiversity Areas (KBAs) covered by protected areas (%)
- Countries that established national targets in accordance with Aichi Biodiversity Target 2 of the Strategic Plan for Biodiversity 2011-2020 in their National Biodiversity Strategy and Action Plans (1 = Yes; 0 = No)
- Countries with integrated biodiversity values into national accounting and reporting systems, defined as implementation of the System of Environmental- Economic Accounting (1 = Yes; 0 = No)

[17] Source: https://documents1.worldbank.org/curated/en/935681641463424672/pdf/Striking-the-Right-Note-Key-Performance-Indicators-for-Sovereign-Sustainability-Linked-Bonds.pdf.

INDEXES	NATURAL CAPITAL INDICATORS
• IUCN Red List Index • RISE Score (2019) • CCPI Ranking (2021) • EPI Ranking (2020)	• Level of water stress: freshwater withdrawal as a proportion of available freshwater resources (%) • Adjusted savings: natural resources depletion (% of GNI) • Adjusted savings: net forest depletion (% of GNI) • Total natural resources rents (% of GDP)

Source: Striking the Right Not - Key Performance Indicators for Sovereign Sustainability Linked Bonds, World Bank Group.

3.2 MEASURABLE OR QUANTIFIABLE KPIs

MEASURABLE OR QUANTIFIABLE ON A CONSISTENT METHODOLOGICAL BASIS

The issuer should establish measurable and quantifiable KPIs using a consistent approach, as this forms the foundation for setting SPTs in subsequent stages.

3.3 EXTERNALLY VERIFIED KPIs

If the KPIs have not been previously disclosed, issuers should, to the extent possible, provide externally verified KPI values covering at least the previous three years.

3.4 KPIs THAT CAN BE BENCHMARKED

A clear definition of KPI, applicable scope or perimeter and calculation methodology, and definition of baseline should be provided and, where feasible, science-based or benchmark against an industry standard / recognised international data such as SMART philosophy - specific, measurable, attainable, relevant and time-bound.

CHAPTER 4

DEEP DIVE INTO THE SELECTION OF SPTs

DEEP DIVE INTO THE SELECTION OF SPTs

Chapter 4 delves into the requirements and components of a Sustainability-Linked Fixed Income Instruments framework, including the establishment of ambitious yet realistic SPTs and beyond a 'Business as Usual' trajectory. The section will also cover comparability to benchmarks, alignment with the issuer's overall sustainability strategy, and the timeline for issuing the Sustainability-Linked Fixed Income Instrument.

4.0 REQUIREMENTS AND COMPONENTS OF SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS FRAMEWORK

The SC's LOLA Guidelines Chapter 9, guidance to Paragraph 9.12 states the following:

The SPT(s) selected MUST be:

(a) ambitious yet realistic;

(b) a material improvement in the respective KPIs and be beyond a 'Business as Usual' trajectory;

(c) comparable to a benchmark or an external reference, where possible;

(d) consistent with the issuers' overall sustainability, business and ESG strategy; and

(e) set before, or concurrently with, the issuance of the SRI-linked sukuk.

4.1 AMBITIOUS YET REALISTIC SPTs

The issuer can develop ambitious yet realistic SPTs by taking guidance from the criteria listed in paragraph 9.12 (b)-(e) above.[18]

4.2 REPRESENT A MATERIAL IMPROVEMENT

WHAT IS MATERIAL IMPROVEMENT?

Significant positive change, enhancement or substantial improvement in the selected KPIs.

WHAT IS BEYOND 'BUSINESS AS USUAL'?

The progress or performance change beyond what a business has achieved through its normal operations.

[18] SC's LOLA Guidelines Chapter 9, guidance to Paragraph 9.12.

HOW TO DETERMINE AMBITION?

Below are the potential options and examples for assessing the ambition of a target:

ASSESSMENT OF AMBITION	EXAMPLES
Alignment with internationally agreed goals	Intervention contributes to 1.5–2°C decarbonisation pathways in all circumstances.
Eligibility criteria	Positive/negative list of sectors/technologies in alignment with climate mitigation and adaptation. Example of a negative list include having zero direct financing of utility scale coal-fired power project.
Benchmarking with comparable companies	Benchmark against the average of comparable companies.
Baseline targets	Assess target compared to a predetermined baseline (for example, base year, business-as-usual scenario).

Source: Striking the Right Note - Key Performance Indicators for Sovereign Sustainability Linked Bonds, World Bank Group.

4.3 SPTs THAT CAN BE BENCHMARKED

HOW TO SET TARGETS USING A COMBINATION OF BENCHMARKING

ICMA's SLBP provides that the target setting exercise should be based on a combination of benchmarking approaches:

- The issuer's past performance of the selected KPIs (i.e., a minimum of 3 years record, and forward-looking guidance on the selected KPIs, if possible).
- Comparable to peers (e.g., the SPTs' relative positioning versus its peers or versus current industry or sector standards).
- Scientific reference (i.e., systematic reference to science-based scenarios or absolute levels (e.g. carbon budgets) or to official country/regional/international targets (e.g. Paris Agreement) or other recognised Best-Available-Technologies or other proxies to determine relevant targets across environmental and social themes).

4.4 CONSISTENT WITH THE ISSUER'S STRATEGIES

SPTs should align and complement the issuer's broader business and sustainability objectives.

4.5 SETTING OF SPTs

To develop ambitious SPTs, the issuer should determine a predefined timeline set before (or concurrently with) the issuance of the sukuk. The issuer should set both long-term and interim targets to track its progress towards its sustainability goals.

For example, setting a goal of achieving net-zero emissions by 2050 (a longer-term commitment) along with interim targets for 2025 helps to break down the larger goal into achievable steps and demonstrates the issuer's dedication to sustainability over time.

The SC's LOLA Guidelines Chapter 9, Paragraph 9.20(a) to 9.20(h) states the following:

The Disclosure Requirements (relating to SPT) must include:

(a) The rationale and process according to which the KPIs have been selected and how the KPIs fit into the issuer's sustainability and business strategy;

(b) The detailed description of the potential variation of the SRI-linked sukuk's structure or financial characteristics and the trigger event leading to such variation

(c) Issuer's plan to achieve each of the SPTs;

(d) Motivation for the outlined SPTs and the timelines for the achievement of the SPTs, including the target observation date or period, the trigger event and the frequency of SPTs;

(e) The baseline or reference point selected for improvement of KPIs as well as the rationale for that baseline or reference point to be used (including date or period);

(f) The situations in which recalculations or pro-forma adjustments of baselines will take place;

(g) Fallback mechanisms in case the SPTs cannot be calculated or observed in a satisfactory manner; and

(h) Any other key factors beyond the issuer's direct control that may affect the achievement of the SPTs.

CHAPTER 5

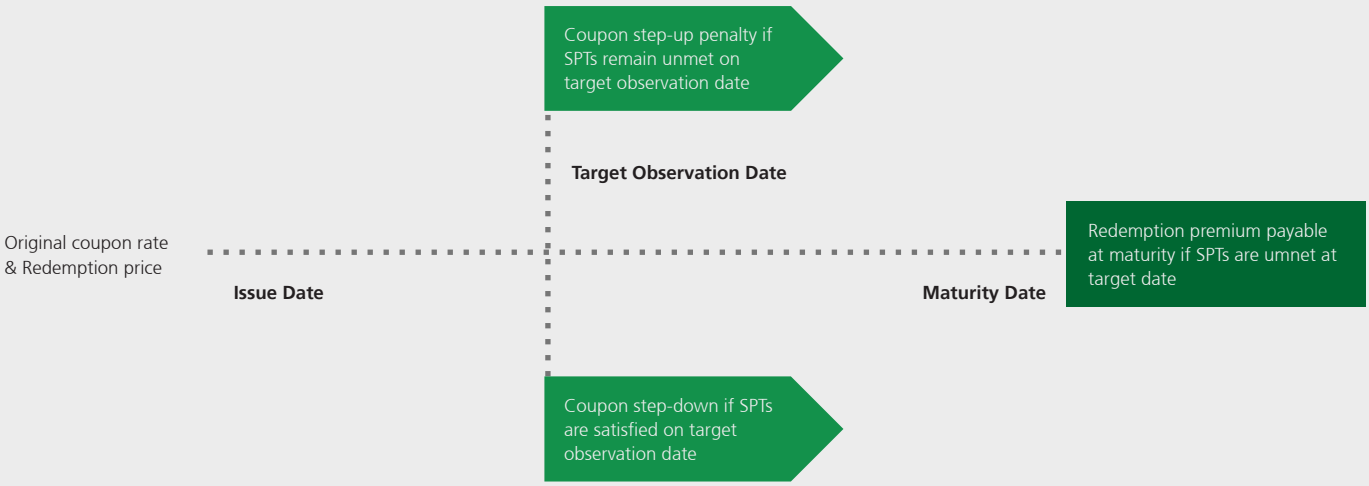
BOND CHARACTERISTICS

BOND CHARACTERISTICS

5.0 PAYMENT MECHANISM OF SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS

The payment mechanism of a SLB operates through a series of key milestones, spanning from the bond's issuance date to its target observation date and eventual maturity date.

FIGURE 1: EXAMPLES OF PAYMENT MECHANISM OF A SLB



Source: Sustainability-Linked Bond Mechanism (World Bank Group).

The date of issue is when the issuer raises capital by selling the bond to investors in the primary market, during which the issuer determines the original coupon rate and redemption price. Throughout the bond's lifecycle, regular coupon payment periods are established, similar to traditional bonds - occurring quarterly, semi-annually, or annually. However, the unique aspect of SLBs lies in how these coupon payments are tied to the issuer's sustainability performance.

The target observation date(s), specified in the bond's terms, serve as pivotal moments for evaluation. On these dates, the issuer's sustainability performance is assessed.

The bond's payment mechanism then comes into play. For example:

I. If the issuer meets or exceeds the predefined sustainability targets, the coupon rate may be reduced, essentially rewarding the issuer for maintaining or improving sustainability.

II. In cases where the issuer falls short of the targets, the coupon rate may increase. This acts as a financial penalty or incentive for the issuer to enhance its sustainability efforts.

It is crucial to highlight that the discussion above is just an example of changes in structural or financial features. There are other types of features that can alter the payment mechanism.

Finally, as the SLB approaches its maturity date, the coupon payment and principal repayment are determined based on the issuer's sustainability performance on the target observation date(s) closest to maturity, according to the bond's terms.

5.1 FINANCIAL/STRUCTURAL VARIATIONS OF SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS

The specific types of financial/structural variations associated with Sustainability-Linked Fixed Income Instruments can differ, based on the terms and conditions outlined in the sukuk/bond's offering documents. Outlined below are common examples of these variations:

FIGURE 2: COMMON TYPES OF FINANCIAL/STRUCTURAL VARIATIONS OF SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS

TYPES OF FINANCIAL/ STRUCTURAL VARIATIONS	DEFINITION
COUPON STEP-UP	A coupon step-up penalty means that if the issuer does not meet its pre-determined sustainability targets by the target observation date, subsequent interest/profit payments will be increased by a pre-determined penalty amount (usually quoted in b.p.).
COUPON STEP-DOWN	A coupon step-down incentive means that if the issuer meets its pre-determined sustainability targets by the target observation date, subsequent interest/profit payments will be decreased by a pre-determined amount (usually quoted in b.p.).
REDEMPTION PREMIUM	A redemption premium means that if the issuer does not meet its pre-determined sustainability targets by the target observation date, the issuer will have to pay a pre-determined premium on its redemption price at the time of redemption (usually quoted in percentage).
DONATION	Donation means that if the issuer does not meet its pre-determined sustainability targets by the target observation date, an amount equal to a predetermined percentage of the bond's issuance will be donated to a foundation or organisation of the issuer's choice.
EARLY REDEMPTION	If the issuer does not meet its pre-determined sustainability targets by the target observation date, the bond will be redeemed early at a pre-determined redemption price.
PURCHASE CARBON EMISSION CREDITS	If the issuer does not meet its pre-determined sustainability targets by the target observation date, the issuer will purchase carbon offsets for an amount equivalent to a pre-determined percentage of the aggregate principal amount of the bonds.

Source: Structural Loopholes in Sustainability-Linked Bond by World Bank Group.

As at end-December 2023, coupon step-ups dominate the current SLB market, featuring in 58% of SLBs and representing 77% of the total cumulative amount issued. If the issuer fails to meet its target, step-ups benefit bondholders by providing a reward for bondholders through a higher coupon. Table 1 shows only nine bonds exhibit pure step-down structures, while many others adopt a hybrid approach combining step-up and step-down features to accommodate various levels of ambition.[19]

TABLE 1: STEP-UPS FOLLOWED BY REDEMPTION PREMIUMS ARE THE MOST USED FINANCIAL MECHANISM

STEP-UPS FOLLOWED BY REDEMPTION PREMIUMS ARE MOST USED			
FINANCIAL MECHANISMS	**AMOUNT (US$ BILLION)**	**BONDS**	**ISSUERS**
Not disclosed	24.2	109	82
Conservation success payment	0.2	1	1
Mandatory early redemption	1.0	7	5
Redemption discount	0.1	1	1
Redemption premium	19.0	82	61
Redemption premium (charity)	5.8	34	19
Redemption premium (emission permits)	0.3	4	4
Redemption premium (green electricity certificate/carbon credit)	0.6	4	4
Redemption premium (green electricity certificate/carbon offset)	1.7	18	4
Redemption premium (green investments)	0.1	1	1
Redemption premium (offset purchase)	1.3	6	5
Step-down	0.7	9	6
Step-up	214.5	447	266
Step-up (offset purchase)	0.4	2	1
Step-up and / or step-down	9.4	43	33
GRAND TOTAL	**279.3**	**768**	**469**

Source: Climate Bond Initiative, Sustainability-Linked Bonds: Building a High-Quality Market.

The average step-up per target was 24.8 b.p., with a weighted average of 25.9 b.p. indicating larger issuers face slightly higher step-ups (Table 2). While the figures have remained stable, wider ranges are seen in high issuance years, with 2021 showing extremes: a minimum of 1.5 b.p. (Teva Pharmaceutical Industries Limited) and a maximum of 150 b.p. (Holcim). Holcim is a construction materials producer, including cement (a hard-to-abate sector), and had set a high step-up to demonstrate its commitment to its transition plan.

TABLE 2: SLB STEP-UP BASIS POINTS PER TARGET

25 BPS IS THE AVERAGE AND MOST COMMON STEP-UP	
	STEP-UP (PER TARGET), BASIS POINTS*
Average	24.8
Weighted average (by bond size)	25.9
Minimum	1.5
Maximum	150.0
Mode	25.0
Standard deviation	19.1

Source: Climate Bond Initiative, Sustainability-Linked Bonds: Building a High-Quality Market.

[19] Source: Climate Bond Initiative, 'Sustainability-Linked Bonds: Building a High-Quality Market.' (March 2024).

CHAPTER 6

EXTERNAL REVIEW

EXTERNAL REVIEW

Pre-issuance

The SC's LOLA Guidelines, guidance to Paragraph 9.13 states the following:

An issuer must appoint an external reviewer to assess and provide a report on the issuer's compliance with the requirements under these Guidelines.

The external reviewer's report should include:

(a) the assessment of the relevance, robustness and reliability of the selected KPIs;

(b) the rationale and level of ambition of the proposed SPTs;

(c) the relevance and reliability of selected benchmarks and baselines; and

(d) the credibility of the strategy outlined to achieve the SPTs, based on scenario analyses, where relevant.

Post-issuance verification

SC's LOLA Guidelines, Paragraph 9.15 states the following:

An issuer must appoint an independent verifier to provide a verification report on the issuer's performance level against each SPT and for each KPI.

In the Sustainability-Linked Fixed Income Instruments market, external reviewers play a crucial role in providing independent assessment or verification at the pre-issuance and post-issuance stage to provide market confidence to investors. For additional guidance, the issuer may also refer to ICMA Guidelines on External Reviewer.

CHAPTER 7

CASE STUDIES

CASE STUDIES

7.0 OIL AND GAS – TAMARACK VALLEY ENERGY LTD.

SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS INFORMATION

COUNTRY	 **CANADA**
COMPANY NAME	Tamarack Valley Energy Ltd. (Tamarack)
COMPANY BACKGROUND	Tamarack is a Canadian oil and gas company with a long-term strategic focus on responsible, value-driven energy development. Its asset portfolio comprises oil plays in Alberta, including the Charlie Lake, Clearwater, Cardium and several enhanced oil recovery opportunities.
SUSTAINABILITY STRATEGY	1. **Emission Management** Tamarack is committed to reducing greenhouse gas emissions, understanding climate change risks and providing a highly responsible, low emission energy option during the energy transition. 2. **Indigenous Partnership** Tamarack is committed to active partnerships with its Indigenous stakeholders, supporting the preservation of culture and knowledge sharing to produce mutually beneficial outcomes.
PROGRAMME TENURE	5 years
ISSUANCE TENURE	5 years
BOND CHARACTERISTIC	Coupon step-up, increased redemption fee or changes to the tenor of the bond. For the total issuances of CA$300 million in February and September 2022: Failure to meet the SPTs will result in a step-up in the interest rate payable of 75 b.p. for the emissions reduction SPT and 25 b.p. for the Indigenous workforce participation SPT from and including 10 May 2026.
ISSUANCE STANDARD/ PRINCIPLES	ICMA SLBP
EXTERNAL REVIEWER	S&P Global Ratings

Source: Tamarack's SLB Framework.

KPI SETTING

NO	REQUIREMENT FOR KPI SETTING	KPI DETAILS	OPINION OF EXTERNAL REVIEWER
1	KPIs are relevant and material	**KPI 1:** GHG Emissions Intensity, $kgCO_2e$/boe *(Scope 1 and 2 Emissions)** **boe – product sales in barrels of oil equivalent*	Material to the sector because oil and gas exploration and production is highly energy intensive and produces significant GHG emissions from combustion activities, equipment leaks, venting, and flaring.
		KPI 2: Indigenous representation as percentage of workforce	This KPI is also relevant and material to the sector because an oil and gas company's inability to effectively create value for its local community may affect its social license to operate. The external reviewer believes this KPI is particularly important for Canadian companies given their frequent engagement with Indigenous communities, as well as Canada's agenda to achieve reconciliation with its Indigenous people. However, the external reviewer does not believe the KPI is linked to one of the most relevant sustainability challenges for the oil and gas industry globally.

2	KPIs are measurable or quantifiable on a consistent methodological basis	**KPI 1** is structured under the following parameters: 1. GHG emission intensity within a full calendar year. 2. Scope of GHG emissions measurements and target is company-wide. 3. Computation: $\frac{\text{Kg of } CO_2 \text{ Emissions Equivalent } (kgCO_2e)}{\text{Product sales, in a barrel of oil}}$	Tamarack uses the recognised and publicly available GHG Protocol to calculate the numerator of KPIs. However, Tamarack has chosen to align the denominator of the KPI with the IFRS Foundation's accounting standard for production measurement, which is calculated in terms of sales volume. While using sales production as a denominator leads to a more conservative measure of its GHG emissions intensity, this production measurement does not align with the production measurement it reports to regulators, which it calculates in terms of raw production volumes, including volumes wasted or emitted rather than sold. The external reviewer believes this limits the comparability of Tamarack's KPI with those of its peers.
		KPI 2: Indigenous representation as percentage of workforce.	Because the metric relies on self-reporting, some challenges may exist in the availability and comprehensiveness of the gathered data. However, the external reviewer believes this risk is partially mitigated because according to Tamarack, the proportion of its employees that self-report across the organisation is quite high (over 90%).

Source: Tamarack's Second Opinion Report.

SPT SETTING

NO	REQUIREMENT FOR SPT SETTING	SPT DETAILS	OPINION OF EXTERNAL REVIEWER
1	Benchmarking against own performance	Achieve a reduction in GHG emissions intensity (Scope 1 and 2) of 39% by the end of 2024, relative to the 2020 baseline.	The SPT is benchmarked against the company's past performance. However, its SPT setting is only viewed to be aligned to the SLBP requirement, rather than having strong or advanced SPT setting practices. Given the issuer's historical performance trajectory, the external reviewer views the target to be at least equal to the improvements it has implemented in recent years because it will likely require significant new capital investments and innovation to achieve and reflect a shift in its business model away from a business-as-usual approach.
2	Benchmarking against peers		The company also conducted a benchmarking exercise against its publicly traded peers in the upstream oil and gas sector (excluding those that focus exclusively on oil sands and dry natural gas producers given their incomparable emissions profiles). Its SPT setting is only viewed to be aligned to the SLBP requirement, rather than having strong or advanced SPT setting practices. The external reviewer believes there are several limitations with the peer analysis conducted. First, the benchmark shows that Tamarack's expected scope 1 and 2 GHG emission intensity in 2025 is in the top quartile of its oil weighted peer group as of 2020. The external reviewer views the lack of consideration of its peers' targets or trajectories as a limitation. In addition, the majority of its peers disclose their production as a raw measure, rather than based on sales volumes, which limits the comparability of its disclosed intensity metrics. Furthermore, most peers are based in North America which limits comparability of the SPT in a global context. Finally, the external reviewer does not believe all of Tamarack's upstream peers are directly comparable with its business, given its product mix, and do not have full visibility into how the SPT compares with those of its closest peers.
3	Benchmarking against science-based scenarios or international targets		-

Source: Tamarack's Second Opinion Report.

7.1 WASTE MANAGEMENT – CENVIRO SDN BHD

SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS INFORMATION

COUNTRY	 **MALAYSIA**
COMPANY NAME	Cenviro Sdn Bhd (Cenviro)
COMPANY BACKGROUND	Cenviro, which stands for 'Clean Environment', is the flagship of Khazanah Nasional Bhd's investment in sustainable development. As the modern resource company, Cenviro through its subsidiary Kualiti Alam Sdn Bhd owns and operates Malaysia's first integrated Waste Management Centre in Negeri Sembilan which has been in operation since 1998. The centre holds the license to handle 76 out of 77 categories of the scheduled waste categories listed under Environment Quality (Scheduled Wastes) Regulation 2005 for collection, treatment, recycling, recovery and final disposal.
SUSTAINABILITY STRATEGY	**5-Year GHG reduction roadmap (2020 – 2025)**
PROGRAMME TENURE	20 years
ISSUANCE TENURE	Tranche 1: 8 years Tranche 2: 12 years
BOND CHARACTERISTIC	Step down in profit rate if SPT is met
ISSUANCE STANDARD/ PRINCIPLES	ICMA SLBP
EXTERNAL REVIEWER	RAM Sustainability

Source: Cenviro's 2021 Sustainability Report.

KPI SETTING

NO	REQUIREMENT FOR KPI SETTING	KPI DETAILS	OPINION OF EXTERNAL REVIEWER
1	KPIs are relevant and material	Reduction of greenhouse gas (GHG) emissions intensity (tCO_2e/mt)	Relevant and material as 23% of scheduled waste treated at the waste management centre plants was sent for incineration, which is the main contributor of the issuer's Category 1 emissions in 2020. This highlights the importance of managing GHG emissions as majority of them comes from its thermal treatment. KPI is in line with issuer's sustainability strategy, i.e., the 5-Year GHG Reduction Roadmap developed in 2020. Additionally, GHG emission intensity is included as part of the issuer's Board-approved KPIs.
2	KPIs are measurable or quantifiable on a consistent methodological basis	A reduction of GHG emissions intensity Computation: $\frac{\textit{Tons of } CO_2 \textit{ Emissions Equivalent } (tCO_2e)}{\textit{Tonnage of Waste Volume (mt)}}$	KPI is measurable and quantifiable on a consistent methodological basis. The issuer adopts ISO 14064-1 to quantify its GHG emissions, which is an internationally recognised standard for quantification and reporting of GHG emissions and removals.

Source: Cenviro's Second Opinion Report.

SPT SETTING

NO	REQUIREMENT FOR SPT SETTING	SPT DETAILS	OPINION OF EXTERNAL REVIEWER
1	Benchmarking against own performance	5% target reduction of GHG intensity by 2025 from 2020 baseline.	In view of its specialised role in managing scheduled waste, external benchmarks relating to GHG emissions are limited. The SPT set is instead benchmarked against the issuer's own operations and potential to mitigate the negative impact of emissions. The external reviewer considers the SPT and the strategy to achieve it ambitious owing to the context in the scheduled waste management industry. While the external reviewer recognised strategies outlined by the issuer to achieve the SPT, their strategies failed to address scaling back waste incineration, the main contributor of GHG emissions. Due to the challenge in implementing sustainability strategies in hazardous waste management, some of which require incineration for safe disposal, Cenviro had taken steps to minimise GHG emissions beyond its business-as-usual from its electricity usage, transportation and material usage.
2	Benchmarking against peers		Given its specialised role in managing scheduled waste, external benchmarks related to GHG emissions are limited.
3	Benchmarking against science-based scenarios or international targets		-
4	Be consistent with the issuer's overall sustainability, business and ESG strategy	5-Year GHG reduction roadmap	The KPI and SPT selected by the issuer is in line with its sustainability strategy, i.e., the 5-Year GHG Reduction Roadmap developed in 2020. Additionally, GHG emission intensity is included as part of the issuer's Board-approved KPIs.

Source: Cenviro's Second Opinion Report.

7.2 PLANTATION – EMPRESAS CMPC S.A.

SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS INFORMATION

COUNTRY	 **UNITED STATES OF AMERICA**
COMPANY NAME	Empresas CMPC S.A. (CMPC)
COMPANY BACKGROUND	Empresas CMPC S.A. is a Chilean-based global leader in the forestry, pulp, paper and packaging industries, with more than 100 years of history.
SUSTAINABILITY STRATEGY	Empresas CMPC S.A. has developed its Value Creation Model, which embodies the integration of its business and subsidiaries based on the use of renewable resources and bio-based materials to develop essential products. The model contributes towards a circular economy by promoting reuse and/or recycling, mitigation and adaptation measures to address climate change using renewable energies, carbon capture and sequestration. CMPC strives to create shared value for all its stakeholders, while enhancing the well-being of local communities.
ISSUANCE TENURE	10 years
BOND CHARACTERISTIC	Coupon-step up
ISSUANCE STANDARD/ PRINCIPLES	ICMA SLBP
EXTERNAL REVIEWER	DNV

Source: Empresas CMPC S.A.'s SLB Framework.

KPI SETTING

NO	REQUIREMENT FOR KPI SETTING	KPI DETAILS	OPINION OF EXTERNAL REVIEWER
1	KPIs are relevant and material	**KPI 1:** Absolute CO_2 emissions - Scopes 1 and 2 (in tCO_2e) **KPI 2:** Industrial Water Use Intensity (in m^3 /ton of product)	Material, as carbon and water use impacts CMPC's own value creation as well as that of its external stakeholders. In the pulp and paper industry, metrics like GHG emissions and water use are crucial for monitoring and reporting operational efficiency. The KPI allows the measurement of absolute carbon emissions and relative water intensity reductions, with elements under management control and oversight by the Sustainability Committee at the Board Level.
2	KPIs are measurable or quantifiable on a consistent methodological basis	**KPI 1:** 'GHG emissions' refers to the total carbon dioxide equivalent emissions of all the operating subsidiaries of CMPC measured in metric tonnes of CO_2e. This inventory includes scope 1 (direct) and scope 2 (indirect from energy purchases) emissions according to the GHG Protocol. **KPI 2:** 'Industrial water use' refers to the industrial water withdrawal for those production facilities of CMPC that use industrial water in their production process. $\frac{\textit{Total Withdrawals Measured in } m^3}{\textit{Total Production in Metric Tons}}$	The external reviewer concludes it is a robust and reliable metric to measure: 1. Absolute carbon emissions for all operating subsidiaries. 2. Water use intensity from total withdrawals from the facilities against total production of the facilities.

Source: CMPC's Second Opinion Report.

SPT SETTING

NO	REQUIREMENT FOR SPT SETTING	SPT DETAILS	OPINION OF EXTERNAL REVIEWER
1	Benchmarking against own performance	**SPT 1:** Scope 1 and 2 GHG equal to or less than 1,833,060 tCO_2e, for the year 2025 **SPT 2:** Scope 1 and 2 GHG emissions equal to or less than 1,198,218 tCO_2e, for the year 2030 **SPT 3:** Industrial water use intensity equal to or less than 23.13 m^3/ton, for the year 2025	The SPTs have a performance track record dating back to 2018 and provide year-on-year guidance leading up to 2030, in accordance with ICMA Principles.
2	Benchmarking against peers		The SPTs outlined go beyond those of industry peers. The water use intensity is based on benchmarking against industry practices, including Best Available Techniques.
3	Benchmarking against science-based scenarios or international targets		The carbon emission SPT is modelled using the Science Based Target tool.

Source: CMPC's Second Opinion Report.

7.3 CONSTRUCTION AND PROPERTY – ATRIUM LJUNGBERG

SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS INFORMATION

COUNTRY	**SWEDEN**
COMPANY NAME	Atrium Ljungberg (AL)
COMPANY BACKGROUND	AL is one of Sweden's biggest listed property companies that owns, develops, and manages properties totalling 1,052,000 m² letting area with a property value of SEK 49 billion.
SUSTAINABILITY STRATEGY	Achieving net zero emissions by 2030 across the building lifecycle.
PROGRAMME TENURE	5 years
ISSUANCE TENURE	5 years
BOND CHARACTERISTIC	Redemption price, coupon or margin adjustment. An adjustment of the redemption price will be the preferred solution.
ISSUANCE STANDARD/ PRINCIPLES	• ICMA SLBP • Loan Markets Association (LMA), Asia Pacific Loan Market Association (APLMA), Loan Syndication and Trading Association Sustainability-Linked Loan Principle (SLLP)
EXTERNAL REVIEWER	CICERO and the International Institute for Sustainable Development (IISD)

Source: AL's SLB Framework.

KPI SETTING

NO	REQUIREMENT FOR KPI SETTING	KPI DETAILS	OPINION OF EXTERNAL REVIEWER
1	KPIs are relevant and material	**KPI 1:** Climate neutral construction projects by 2030 (achieve 75% reduction without offset)	Material, as it represents around 60% of the company's total GHG emissions. Material in terms of managing climate transition risk which requires carbon neutrality by 2045, introduced by the *Swedish Climate Act.*
		KPI 2: Reduce climate footprint in property management by 2030 (achieve 43% reduction without offsets).	Material, as it represents around 38% of the company's total GHG emissions. Material in terms of managing climate transition risk which requires carbon neutrality by 2045, introduced by the *Swedish Climate Act.* According to the company, KPI 2 is relevant to 100% of its property portfolio. It can also be considered highly material from this perspective.
		KPI 3: Our City - Index for social sustainability (90% by 2030). *Note:* *The Index tracks improvement across a broad range of indicators measuring social and sustainable development at AL's locations.*	Material as it covers a wide range of sustainability considerations that are material for the company's overall business and addresses relevant sustainability challenges in the real estate sector. The indicators in the index are in line with priorities and guidelines for social sustainability in housing as outlined in various publications, including from the UN habitat.
		KPI 4: Supplier reviews (100% by 2025).	Most likely material as the materiality of KPI 4 depends on the extent to which the supplier's code of conduct and supplier's reviews drive improvements in the supplier's performance.

2	KPIs are measurable or quantifiable on a consistent methodological basis	**KPI 1:** Construction projects are measured, and the climate impact calculated based on generic data and product specific climate data. Computation: $\frac{Kg\ of\ CO_2\ Emissions\ Equivalent\ (kgCO_2e)}{Gross\ Floor\ Area}$	KPI 1 and KPI 2 are clearly defined and can be consistently measured and quantified given that emissions accounting will be performed according to the GHG Protocol.
		KPI 2: Measure Scope 1, 2 and 3 emissions in the existing properties, which includes the tenant's climate footprint, and use generic and specific data to calculate total emissions. Reporting of GHG emissions is done in accordance with the GHG Protocol. Computation: $\frac{Kg\ of\ CO_2\ Emissions\ Equivalent\ (kgCO_2e)}{Square\ Meter}$	
		KPI 3: The index contains 21 indicators covering five material social and environmental aspects of importance to urban development. Each aspect is scored based on both stakeholder input, carried out through questionnaires and interviews, and quantitative metrics derived from own data or external sources.	The underlying methodology for KPI 3 is robust, but complex in nature and has not yet been calculated using actual data.
		KPI 4: The risk assessment requires the suppliers to respond to questions on their adherence to our Supplier Code of Conduct.	For KPI 4, the methodology is robust but transparency could be improved with greater clarity on when a supplier review is considered complete.

Source: AL's Second Opinion Report.

SPT SETTING

NO	REQUIREMENT FOR SPT SETTING	SPT DETAILS	OPINION OF EXTERNAL REVIEWER
1	Benchmarking against own performance	**SPT 1:** 50% reduction of climate footprint of construction projects by 2025 compared to baseline	Insufficient basis for assessment due to lack of historical data • A direct comparison against AL's own performance is not possible as the company has not consistently collected or published historical data for this KPI. • AL has previously achieved a life cycle emissions intensity of 216 kg CO_2eq/m^2 for a rebuilding project by using recycled construction materials. The company also demonstrated a 20% reduction in an office building's embodied carbon from 420 to 338 kg CO_2eq/m^2 by using a floor structure made from over 90% recycled materials. • According to the company, these improvements are representative of how it needs to work moving forward to achieve SPT 1, and that further work needs to be done in order to turn such examples from exceptions into the norm. While this is a relevant data point for understanding the ambitiousness of KPI 1, it provides insufficient basis.
2	Benchmarking against peers		More ambitious than peers • Noting that AL has also specified an overarching target of net zero Scope 1, 2 and 3 by 2030, the introduction of SPT 1 as an interim sub-target is a clear marker of ambition that differentiates it from its peer group. • AL's immediate peers include large cap Swedish listed real estate developers with residential, retail or office properties in their portfolios; Vasakronan is also included as the largest Swedish real estate developer.

NO	REQUIREMENT FOR SPT SETTING	SPT DETAILS	OPINION OF EXTERNAL REVIEWER
			• Among this peer group, four have announced the objective of becoming climate neutral by 2030 and included Scope 3 emissions: Castellum, JM, SBB, and Vasakronan. JM and Vasakronan clearly specify that this includes embodied emissions in building materials and emissions from the transport of building materials, but do not specify the inclusion of end-of-life emissions. Castellum and SBB indicate their targets are for the 'entire value chain,' which suggests that building materials and construction phase emissions are included, but this is not clearly specified. • However, none of these peers have specified a more comparable target to SPT 1, either in terms of being interim in nature or in terms of focusing specifically on halving life cycle emissions from all new construction projects.
3	Benchmarking against science-based scenarios or international targets		Paris/1.5°C aligned with caveats • SPT 1 aligns with the International Energy Agency's Net Zero Emissions by 2050 (NZE) scenario, which corresponds to 1.5°C of climate warming, but mainly based on the embodied emissions reductions it would likely entail. Alignment with the NZE criteria for zero-carbon-ready buildings is achieved provided AL maintains for all new construction projects the level of ambition outlined for new buildings in its 2022 green bond framework's green building project category. • The IEA NZE indicates that mandatory zero-carbon-ready building codes for new construction must be introduced by 2030. Crucially, this means: (1) that new buildings after 2030 are highly energy efficient (entailing an average improvement of 29% from 2020) and either use renewable energy directly or an energy supply that will be fully decarbonised by 2050, such as electricity or district heat and (2) that zero-carbon-ready building codes should target net zero emissions from material use in buildings, and that embodied emissions in building construction must decline by 40% per square metre of new floor area by 2030. • SPT 1 addresses both aspects of the NZE referenced above, as it targets all stages of a building's life cycle, including embodied emissions and use stage emissions. SPT 1 does not specify which stage of the building's life cycle these emissions reductions come from. According to AL, about 80% of emissions relevant to SPT 1 come from embodied emissions. As such, achieving SPT 1 would more than likely mean that AL is on a pathway to satisfying point (2) above. • On the other hand, it is theoretically possible for AL to achieve SPT 1 by only reducing embodied emissions, with no improvements in use stage emissions. It should however be noted that with regards to point (1), AL's existing property portfolio is already electrified or utilising district heat, and that its 2022 green bond framework requires new buildings to have 20% lower energy use than Sweden's national building code, which requires all new construction to be nearly zero energy buildings (NZEB). Assuming this criterion is applied to all new construction projects, SPT 1 would likely align with the IEA NZE.

Source: AL's Second Opinion Report.

7.4 ENERGY – YINSON HOLDINGS BHD

SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS INFORMATION

COUNTRY	 **MALAYSIA**
COMPANY NAME	Yinson Holdings Bhd (Yinson)
COMPANY BACKGROUND	Yinson is an energy infrastructure and technology company that has business interests in offshore production, renewables, green technologies, as well as offshore marine.
SUSTAINABILITY STRATEGY	Reduction of its GHG emissions and increase of renewable energy generation as its strategic goals.
PROGRAMME TENURE	5 years
ISSUANCE TENURE	5 years
BOND CHARACTERISTIC	1. A coupon or profit rate step-up could be triggered, such adjustment could be pro-rated based on the degree of failure to satisfy SPT(s); or 2. Increased redemption fee.
ISSUANCE STANDARD/ PRINCIPLES	ICMA SLBP
EXTERNAL REVIEWER	ISS-ESG

Source: Yinson's Sustainability-Linked Financing Framework.

KPI SETTING

NO	REQUIREMENT FOR KPI SETTING	KPI DETAILS	OPINION OF EXTERNAL REVIEWER
1	KPIs are relevant and material	**KPI 1:** Renewable energy generation of Yinson controlled plants	The KPI selected is relevant and material to the issuer's business model and consistent with its sustainability strategy.
		KPI 2: Carbon intensity (kg CO_2e/boe) of the company's FPSO operations	The KPI selected is relevant, core and material to the issuer's business model and consistent with its sustainability strategy.
		KPI 3: Carbon intensity (kg CO_2e/MWh) of company overall	It is moderately material to the issuer's business model because the reduction of the KPI does not necessarily reduce the issuer's absolute GHG emissions, which is important for overall climate mitigation.
2	KPIs are measurable or quantifiable on a consistent methodological basis	**KPI 1:** The power generated from Yinson-controlled renewable energy plants will be measured; with readings taken from energy meters.	The KPI selected is measurable and quantifiable. The amount of renewable energy generated by facilities under the company's control will be measured by energy meters and is relatively straightforward to track.
		KPI 2: **Numerator** The numerator is derived based on all issuer floating production storage and offloading (FPSO) operating units' emissions, covering Scope 1 and Scope 2 normal operating emission. Scope 1 emission will consist of issuer emission from combustion processes (such as power generation and normal flaring) and hydrocarbon venting (including fugitive). Scope 2 will cover indirect emission due to energy purchased and generated from sources outside the issuer's boundary. At this moment, the FPSO did not have any Scope 2 emission.	The KPI selected is measurable and quantifiable. The Scope 1 and 2 emissions of the FPSOs are reported in accordance with the GHG Protocol and standard conversion factors, such as the Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report (IPCC AR5) conversion factors. Industry conventions, such as ultrasonic flowmeters on the flare header and the API Compendium of greenhouse gas emissions methodologies for the oil and gas industry, are used for measuring methane related emissions. The quantities of oil and gas barrel equivalents are measured using standard industry practices.

		Denominator The denominator is derived from the measurement of issuer's oil and gas production on all FPSO operating units. The common unit for issuer's denominator is 'boe', which means barrel of oil equivalents. **Calculation** Divide the numerator and denominator.	
		KPI 3: **Numerator** The numerator is based on Yinson's Scope 1 and Scope 2 GHG emission. The Scope 1 emissions will consist of the GHG emissions from Yinson's normal combustion processes and hydrocarbon venting across the company. Scope 2 emissions will cover indirect emissions due to energy purchased and generated from sources outside the company's organisation boundary, such as usage of grid electricity in the company's offices. **Denominator** The denominator is based on Yinson's measured electricity generation, which is the sum of electricity generated from the FPSO generators plus the electricity generated by the company's growing renewable energy generation (which is included in KPI 1). **Calculation** An equity share approach will be used to determine the allocation of emissions associated to the FPSOs over which it has joint ownership with other companies.	The KPI is calculated based on direct readings of the energy meters associated with the various electricity generation assets, as well as the GHG Protocol and commonly used conversion factors (e.g., IPCC AR5 conversion factor for the global warming potential of methane) for calculating the estimates of the GHG emissions.

Source: Yinson's Second Opinion Report.

SPT SETTING

NO	REQUIREMENT FOR SPT SETTING	SPT DETAILS	OPINION OF EXTERNAL REVIEWER
1	Benchmarking against own performance	Renewable energy generation of Yinson controlled plants (GWh) The targets are: • 2025 – 1,700 GWh • 2030 – 5,600 GWh • 2050 – 22,400 GWh	According to the external reviewer, no explicit historical data has been provided in the Framework prior to the baseline year of FYE 2021 because the company's Renewables Division was established only in October 2019. In FYE 2021, the company's FPSOs, Offshore Support Vessels (OSVs) and offices used a total of 2,603 GWh of energy from fossil fuel sources. By comparison, by 2025, the company will generate an annual amount of 300 GWh of renewable energy, which is approximately 10% of the 2021 energy consumption figure. Overall, the SPT is ambitious against past performance, as the company is starting from zero.
2	Benchmarking against peers		The external reviewer conducted a benchmarking of the SPT 1 set by Yinson against the 8 other industry peers that Yinson has highlighted are its main competitors, as owners of FPSOs. None of the other peers have announced a specific strategy for developing renewable electricity as a new business activity and therefore there are no similar targets set by its peers.
3	Benchmarking against science-based scenarios or international targets		No relevant international or external reference to benchmark the ambition of the SPT has been provided. While a multitude of projections and science-based scenarios exist for how the renewable energy supply may grow in the near future, it is not possible to evaluate the ambition of the SPT by conducting a meaningful benchmarking.

4	Set before, or concurrently with, the issuance of the SRI-linked Sukuk	**SPT 1:** Renewable energy generation of Yinson controlled plants (Gwh) Sustainability Performance Target #1 Observation Dates: • January 31st 2025 - 1,700 GWh • January 31st 2030 - 5,600 GWh • January 31st 2050 - 22,400 GWh Baseline: 2021 (300 Gwh) Alignment of the Sustainable Performance Target with Yinson's Strategic Plan: SPT 1 is aligned with the company's strategy to increase Yinson's Renewable Generation Capacity.	The target is set in a clear timeline, benchmarkable and supported by a strategy and action plan.

Source: Yinson's Second Opinion Report.

7.5 AVIATION – ETIHAD AIRWAYS

SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS INFORMATION

COUNTRY	**UNITED ARAB EMIRATES**
COMPANY NAME	Etihad Airways
COMPANY BACKGROUND	Etihad Airways was founded in 2003 and is headquartered in Abu Dhabi. The airline operates a modern fleet of Airbus and Boeing aircraft, servicing almost 80 international destinations with high-quality full-service.
SUSTAINABILITY STRATEGY	Etihad Airways has established a sustainability strategy and published a Sustainability Position Paper in January 2020. As per the paper, the company aims to achieve net-zero emissions by 2050 and reduce the 2019 net emissions level by 50% by 2035.
PROGRAMME TENURE	5 years
ISSUANCE TENURE	5 years
BOND CHARACTERISTIC	Purchase carbon offsets, if SPT is not met. The table below shows the offset purchase for the equivalent amount of the sukuk notional.

Offset Purchase (Equivalent amount on Sukuk Notional)	CO_2 / RTK Range	
	From	To
25bps	>736	-
20bps	>730.5	736
15bps	>725	730.5
10bps	>719.5	725
5bps	>714	719.5

ISSUANCE STANDARD/ PRINCIPLES	• ICMA SLBP • LMA SLLP
EXTERNAL REVIEWER	Vigeo Eiris

Source: Etihad's Transition Finance Framework.

KPI SETTING

NO	REQUIREMENT FOR KPI SETTING	KPI DETAILS	OPINION OF EXTERNAL REVIEWER
1	KPIs are relevant and material	**KPI 1:** Carbon emissions per revenue tonne kilometres (gCO_2e/RTK)	According to the external reviewer, the selected KPI reflects the issuer's most material sustainability issue as well as the most material challenge for its sector. Aviation is one of the most energy and carbon intensive modes of transport, whether measured per passenger km or per hour travelling. As a consequence, the major concern for the industry is greenhouse gas emissions and their impact on climate change. The environmental impacts of aircraft operations also include noise and nuisance, as well as the prevention of water pollution due to aircraft de-icing, cleaning, and other chemical-heavy aircraft operations.
2	KPIs are measurable or quantifiable on a consistent methodological basis	**Scope:** The KPI is calculated across Etihad's entire fleet (passenger and freight) **Method:** The KPI is calculated as the quotient of two values for a given year: ***Numerator*** Equivalent grams of carbon dioxide emitted, calculated by multiplying Etihad's total fuel burn (kg) by a standard emissions factor of 3.157kg CO_2/kg fuel. ***Denominator*** Revenue tonne kilometres (RTK) – the utilised/sold capacity for passengers and cargo expressed in metric tonnes, multiplied by distance flown.	The selected KPI is externally verifiable and measurable on a consistent methodological basis. The issuer reports that the KPI has historical externally verified KPI values covering at least the previous 3 years.
3	KPIs are able to be benchmarked as much as possible using an external reference or definition to facilitate the assessment of the SPT's level of ambition.	**KPI 1:** Carbon emissions per revenue tonne kilometres (gCO_2e/RTK)	The selected KPI is used by the International Energy Agency (IEA) and by the Transition Pathway Initiative, thus allowing its benchmark.

Source: Etihad's SO Report.

SPT SETTING

NO	REQUIREMENT FOR SPT SETTING	SPT DETAILS	OPINION OF EXTERNAL REVIEWER
1	Benchmarking against own performance	20% reduction in emissions intensity to 692kg CO_2/ RTK in the passenger fleet by 2025. Intermediate SPT: Reduction to 714kg CO_2/ RTK by 31 December 2024	The data provided by the issuer indicates that between 2017 and 2019, there was an average annual variation of -3.7% in emissions intensity, which is higher than the forecasted average annual variation of -2.7% between 2020 and 2025. This suggests that the SPT may not represent an improvement compared to the company's business as usual. However, the issuer explains that the significant annual decrease during 2017-2019 reflects the beginning of fleet transformation. Additionally, the issuer reports a reduction of around 11.2% between 2010 and 2017, representing approximately a 1.6% annual decrease, which better reflects the KPI performance over the years. Therefore, it is concluded that the forecasted performance of the KPI exceeds Etihad Airways' business as usual.
2	Benchmarking against peers		Compared to sector peers, Etihad Airways demonstrates greater ambition with its total fleet 574g CO_2 / RTK targets for 2024 and 559g CO_2/ RTK targets for 2025, surpassing Turkish Airlines' targets of 643g CO_2 / RTK in 2024 and 640g CO_2/ RTK in 2025. Meanwhile, Etihad's targets align with International Airlines Group (IAG)'s, which aim for 572g CO_2 / RTK in 2024 and 562g CO_2 / RTK in 2025.

3	Benchmarking against science-based scenarios or international targets		Etihad Airways' total fleet gCO_2 / RTK targets for 2025 do not align with the 2°C scenario target established by the Paris Agreement. According to the TPI, companies should aim for a carbon emission intensity of at least 539g CO_2 / RTK in 2024 and 522g CO_2 / RTK in 2025 to ultimately reach 430g CO_2 / RTK by 2030 for alignment with a 2°C scenario.

Source: Etihad's SO Report.

7.6 CHEMICALS – ORBIA ADVANCE CORP. SAB de CV

SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS INFORMATION

COUNTRY	**MEXICO**
COMPANY NAME	Orbia Advance Corp. SAB de CV (Orbia)
COMPANY BACKGROUND	Orbia, functioning as a holding company within the chemical sector, offers products and solutions for precision agriculture, building and infrastructure, fluor, polymer solutions, and data communications sectors globally through its subsidiaries.
SUSTAINABILITY STRATEGY	Orbia intends to achieve ambitious sustainability goals in the upcoming years aiming to tackle climate change, sustainability and global topics that concern everyone.
PROGRAMME TENURE	20 years
ISSUANCE TENURE	Tranche 1: 2021 - 2026 Tranche 2: 2021 - 2031
BOND CHARACTERISTIC	Step-up margin amount
ISSUANCE STANDARD/ PRINCIPLES	ICMA SLBP
EXTERNAL REVIEWER	ISS ESG

Source: Orbia's SLB Framework.

KPI SETTING

NO	REQUIREMENT FOR KPI SETTING	KPI DETAILS	OPINION OF EXTERNAL REVIEWER
1	KPIs are relevant and material	SOx emissions reduction	SOx emissions in particular are damaging to the environment and human health. However, it is not one of the key ESG issues faced by the sector, as chemical companies are not among the largest contributors to global SOx emissions, e.g., coal combustion, oil & gas, smelters. Other indicators that have a more significant impact across the chemicals sector include GHG emissions, freshwater use, and hazardous waste intensity according to external reviewer's ESG's proprietary rating methodology. For Orbia's individual operating context, the external reviewer considers that SOx emissions are relevant and material for the company. **Relevant** to Orbia's business given that air pollutants are emitted during industrial processes (via the use of sulfuric acid used to produce Anhydrous Hydrofluoric Acid). This is also relevant for the issuer given its geographic context. **Core** to the issuer's business as, even if 97% of SOx emissions come from only two plants (the Matamoros and Henry plant) out of 120, those plants are critical for Orbia's operations and, more specifically, for the company's Fluor and Polymer Solutions businesses that cumulatively represent 45% of Orbia total revenues and 55% of its EBITDA in 2020.

			Material to Orbia from an ESG perspective as SOx represents the majority (60%) of the issuer's total air emissions which contributes to the key ESG issue of Chemicals sector 'Environmental protection and energy efficiency'. However, the issuer's KPI would be even more material if NOx and VOCs emissions were emissions were also included (which represent the remaining air emissions).
2	KPIs are measurable or quantifiable on a consistent methodological basis	Measurement: **Plant 1 (Matamoros):** SOx concentration is measured by a split beam photometer operating in the ultraviolet (UV) portion, which determines the concentration of SOx. Concentration is given in kg/tonnes of sulfuric acid, which is then multiplied by production. **Plant 2 (Henry):** A 'Continuous Emissions Monitoring System' is used. It is a probe that is measuring the SOx levels and recording it every 6 minutes on a system. The figures are averaged every day and the 30-day rolling average is monitored	The KPI selected is measurable and quantifiable. The issuer provides in the framework a calculation methodology and description of the technology used to measure the emissions.
3	KPIs are able to be benchmarked as much as possible using an external reference or definition to facilitate the assessment of the SPT's level of ambition.	SOx emissions reduction	The KPI is comparable with data reported by other companies, based on the external reviewer's ESG data, although there are limitations, namely the lack of commonly acknowledged standards for calculating air emissions and conducting assurance engagements. Further limitations are related to limited disclosure of SOx emissions across the Chemicals sector and the diversity of the sector itself – with chemicals companies that have product portfolios that do not result in significant SOx emissions. Those limitations cannot be attributed to the issuer.

Source: Orbia's SO Report.

SPT SETTING

NO	REQUIREMENT FOR SPT SETTING	SPT DETAILS	OPINION OF EXTERNAL REVIEWER
1	Benchmarking against own performance	Reduce SOx emissions from 2018 baseline to 44% by 2023 and 60% by 2025.	The external reviewer opined that the SPT set by Orbia is considered ambitious compared to the company's past performance within the current context, and in comparison to the baseline year of 2018 which was the peak of the company's SOx emission. Furthermore, the company plans to reach its 2025 target regardless of macro-economic/technological factors (e.g., pandemic).
2	Benchmarking against peers		The external reviewer benchmarked the SPT against a peer group of 173 listed companies in the chemical sector. As of 13 April 2021, less than half of these companies were disclosing their SOx emissions. Orbia's current performance regarding SOx emissions is rated as excellent by the external reviewer, placing it among the top 34 companies in this aspect. Orbia stands out for disclosing updated SOx emissions reduction targets, which is uncommon among its industry peers. The issuer and the external reviewer confirm that Orbia is one of the few companies in its peer group to disclose such targets. Very few companies within the sector have defined absolute SOx emission reduction targets or updated SOx emissions intensity reduction targets. The external reviewer concludes that Orbia's SPT are ambitious, considering the limited number of companies within the peer group with targets of similar magnitude. However, this assessment is constrained by the limited information reported by the peer group.
3	Benchmarking against science-based scenarios or international targets		The external reviewer was unable to evaluate Orbia's target on SOx emissions against international or local objectives since there is no definite target. However, it is worth noting that Orbia's SOx emissions levels are already below local requirements. Despite that, the company has shown its commitment to reduce SOx emissions by setting a medium-term target.

Source: Orbia's SO Report.

7.7 CHEMICALS – TELUS CORPORATION

SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS INFORMATION

COUNTRY	**CANADA**
COMPANY NAME	Telus Corporation (Telus)
COMPANY BACKGROUND	Telus, one of Canada's leading communications technology and wireless service providers, boasts over 10 million mobile phone subscribers nationwide, constituting approximately 30% of the total market. Additionally, it serves as the incumbent local exchange carrier in the western Canadian provinces of British Columbia and Alberta, offering internet, television, and landline phone services. Telus also maintains a modest wireline presence in eastern Quebec. Recent initiatives have seen Telus prioritise fiber optics deployment across its wireline footprint, upgrading its legacy copper network. Beyond telecommunications, Telus is involved in international business services, health, security, and agriculture industries.
SUSTAINABILITY STRATEGY	The objective of Telus' sustainability strategy is to create meaningful change using Telus' world-leading technology. Telus has set new transformational targets that were approved by the Science Based Targets Initiative (SBTi) to address climate change: • Reduce absolute Scope 1 and 2 GHG emissions by 46% from 2019 levels by 2030. • Reduce absolute Scope 3 GHG emissions from business travel and employee commuting by 46% within the same timeframe. • Reduce Scope 3 GHG emissions from purchased goods and services, capital goods, and use of sold products by 75% per million dollars' revenue within the same timeframe.
PROGRAMME TENURE	13 years
ISSUANCE TENURE	13 years
BOND CHARACTERISTIC	Premium payment amount or step-up margin amount, if SPT is not met
ISSUANCE STANDARD/ PRINCIPLES	ICMA SLBP
EXTERNAL REVIEWER	Sustainalytics

Source: Telus' SLB Framework.

KPI SETTING

NO	REQUIREMENT FOR KPI SETTING	KPI DETAILS	OPINION OF EXTERNAL REVIEWER
1	KPIs are relevant and material	Company-wide Scope 1 and 2 greenhouse gas emissions reduction	The external reviewer considers the KPI to be material and relevant based on the following: I. Although the telecommunication services industry exhibits a medium exposure to the material ESG issue of 'Carbon - Own Operations' due to its less intensive energy consumption compared to sectors like utilities or extractives (e.g., mining and oil & gas), the anticipated rapid expansion in telecommunications infrastructure, encompassing the future deployment of 5G, fibre technologies, and burgeoning customer demand for data and connectivity is expected to significantly elevate the energy demands of companies like Telus. II. The external reviewer regards this as a direct KPI as it directly measures GHG emissions associated with Telus' office buildings, network infrastructure, fuel usage for its vehicle fleet, and data centers. III. SASB identifies the importance of tracking and disclosing energy procurement and efficiency within the telecommunication services industry due to the substantial energy associated with telecom network infrastructure and operations. Mismanagement of energy consumption in this sector can significantly contribute to GHG emissions.

2	KPIs are measurable or quantifiable on a consistent methodological basis	This KPI encompasses all Scope 1 and 2 emissions within Telus' GHG inventory. Telus calculates its energy and GHG consumption in accordance with the GHG Protocol Corporate Accounting and Reporting Standard, Revised Edition (2004). Moreover, Telus utilises various publicly available data sources to compute GHG emissions, relying on emission factors specific to the countries of operation. Telus anticipates an independent third-party to offer 'limited assurance' on its annual disclosure of climate-related (and other) KPI results.	The external reviewer acknowledges Telus' clear and consistent approach to calculating KPI, particularly in reporting GHG emissions. Telus utilises the GHG Protocol Corporate Standard for calculating Scope 1 and 2 emissions, enabling benchmarking against industry standards and peer performance. Additionally, Telus leverages publicly available data sources and country-specific emission factors for GHG calculations in regions of operation.
3	KPIs are able to be benchmarked as much as possible using an external reference or definition to facilitate the assessment of the SPT's level of ambition.		Telus calculates its Scope 1 and 2 emissions in accordance with the GHG Protocol Corporate Standard, which is commonly used in the industry and therefore facilitates benchmarking against external carbon trajectories as well as peer performance. Additionally, Telus uses a number of publicly available data sources to calculate GHG emissions based on the emission factors in the countries in which it operates.

Source: Telus' SLB Framework and Telus' SO Report.

SPT SETTING

NO	REQUIREMENT FOR SPT SETTING	SPT DETAILS	OPINION OF EXTERNAL REVIEWER
1	Benchmarking against own performance	Reduce absolute Scope 1 and 2 GHG emissions by 46% from 2019 levels by 2030	The external reviewer views that Telus is ambitious as the SPT is in line with its historical performance. Telus achieved a 37% GHG emission reduction in 2020 compared to 2010. In recent years, net GHG emissions decreased by 1.9% between 2016 and 2017, a further 7.1% decrease between 2017 and 2018, and a 3% decrease between 2018 and 2019.
2	Benchmarking against peers		The external reviewer considers Telus' SPT to be ambitious as it is aligned with emission reduction targets in the telecommunication services industry. Based on the analysis conducted by the external reviewer on its peer group, which includes 29 operator groups representing 30% of global mobile connections, many have committed to reducing GHG emissions by at least 45% between 2020 and 2030, according to the International Telecommunications Union. The external reviewer did highlight that peers have set even more ambitious emissions reduction targets.
3	Benchmarking against science-based scenarios or international targets		The external reviewer notes that SBTi classifies Telus' target to reduce its absolute Scope 1 and 2 emissions by 46% from 2019 levels by 2030 in line with a 1.5°C trajectory as verified by SBTi.

Source: Telus' SLB Framework and Telus' SO Report.

7.8 TRANSPORTATION – DEUTSCHE POST DHL GROUP

SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS INFORMATION

COUNTRY	 **GERMANY**
COMPANY NAME	Deutsche Post DHL Group (DPDHL)
COMPANY BACKGROUND	DPDHL connects people and markets and is an enabler of global trade, economic growth, and individual prosperity. With two strong brands Deutsche Post and DHL, it offers a comprehensive range of parcel and postal services in Germany as well as international express and parcel services, freight transport, supply chain management services, and e-commerce logistics solutions.
SUSTAINABILITY STRATEGY	DPDHL's Strategy 2025 prioritises becoming the Employer, Provider, and Investment of Choice, while embedding sustainability as a core element. Recognising its environmental impact, the company has reinforced its targets and implemented an ambitious ESG roadmap focusing on Environment, Social, and Governance aspects. This approach aims to lead the industry towards a sustainable future by ensuring clean operations, providing an excellent workplace, and fostering trust as a company and partner.
PROGRAMME TENURE	Information not available
ISSUANCE TENURE	Information not available
BOND CHARACTERISTIC	Coupon step-up or an increase in the redemption price, if SPTs are not met
ISSUANCE STANDARD/ PRINCIPLES	• ICMA SLBP • Climate Transition Finance (CTF) Handbook
EXTERNAL REVIEWER	Sustainalytics

Source: DPDHL's Sustainability-Linked Financing Framework.

KPI SETTING

NO	REQUIREMENT FOR KPI SETTING	KPI DETAILS	OPINION OF EXTERNAL REVIEWER
1	KPIs are relevant and material	**KPI 1:** Absolute scope 1 and 2 GHG emissions (million tonnes of CO_2e) **KPI 2:** Absolute scope 3 GHG emissions (million tonnes of CO_2e)	The external reviewer's assessment identifies *Carbon – Own Operations* as a significant ESG issue for DPDHL. Furthermore, a materiality analysis conducted by the Group in 2021 highlights 'climate and environmental protection focusing on GHG emissions' as crucial. Regarding applicability, a combined approach is taken for assessing KPI 1 and KPI 2, which collectively address 100% of DPDHL's logistics-related scope 1, 2, and 3 GHG emissions, representing about 90% of the Group's total emissions in 2021. Both KPIs are considered material with a high scope of applicability. *Note: Carbon – Own Operations refers to a company's management of risks related to its own operational energy use and GHG emissions (Scope 1 and Scope 2). It also includes parts of Scope 3 emissions.*
2	KPIs are measurable or quantifiable on a consistent methodological basis		The external reviewer acknowledges that DPDHL Group's definition and methodology for calculating KPI performances are clear and consistently applied over the observed years. Additionally, the external reviewer notes that the KPIs are calculated in accordance with recognised standards such as the GHG Protocol methodology, ISO 14064 for greenhouse gases reporting, EN 16258 for energy consumption and GHG emissions of transport services, and the GLEC Framework for harmonising calculations and reporting in the logistics sector's GHG footprint across the multi-modal supply chain.

3	KPIs are able to be benchmarked as much as possible using an external reference or definition to facilitate the assessment of the SPT's level of ambition.		The external reviewer considers KPI 1 and KPI 2 to be very strong given that the KPIs lend themselves to be benchmarked against external emission reduction trajectories.

Source: DPDHL's SO Report.

SPT SETTING

NO	REQUIREMENT FOR SPT SETTING	SPT DETAILS	OPINION OF EXTERNAL REVIEWER
1	Benchmarking against own performance	**SPT 1:** Reduce absolute Scopes 1 and 2 GHG emissions by 42% by 2030 from a 2021 base year	Between 2016 and 2021, DPDHL increased its absolute Scope 1 and 2 emissions by an average annual rate of 4.79%. Achieving SPT 1 implies an average annual rate of reduction in the Group's absolute Scope 1 and 2 emissions of approximately 4.67% between 2021 and 2030. Therefore, the external reviewer considers the targeted performance required to achieve SPT 1 to be above the Group's historical performance on Scope 1 and 2 emissions.
		SPT 2: Reduce absolute Scope 3 GHG emissions from fuel- and energy-related activities, upstream transportation and distribution and business travel by 25% by 2030 from a 2021 base year	Between 2016 and 2021, DPDHL Group increased its logistics-related absolute Scope 3 emissions by an average annual rate of 4.06%. Achieving SPT 2 implies an average annual rate of reduction in the Group's logistics-related absolute Scope 3 emissions of approximately 2.78% between 2021 and 2030. Therefore, the external reviewer considers the targeted performance required to achieve SPT 2 to be above the Group's historical performance on Scope 3 logistics-related emissions.
2	Benchmarking against peers	**SPT 1:** Reduce absolute Scopes 1 and 2 GHG emissions by 42% by 2030 from a 2021 base year	The external reviewer analysed the performance of five of DPDHL Group's industry peers and found the Group's targets to be in line with similar targets set by its peers. Therefore, the external reviewer considers SPT 1 to be aligned with peer performance.
		SPT 2: Reduce absolute Scope 3 GHG emissions from fuel- and energy-related activities, upstream transportation and distribution and business travel by 25% by 2030 from a 2021 base year	The external reviewer analysed the performance of five of DPDHL Group's industry peers, the majority of whom had not set targets for Scope 3 emissions reduction. Based on this analysis, the external reviewer is of the opinion that SPT 2 is more ambitious than the targets set by peers.
3	Benchmarking against science-based scenarios or international targets	**SPT 1:** Reduce absolute Scopes 1 and 2 GHG emissions by 42% by 2030 from a 2021 base year	The external reviewer notes that SPT 1 conforms to SBTi's 1.5°C scenario. This alignment is demonstrated by the SPT's implication of an average annual reduction in absolute Scope 1 and 2 GHG emissions of approximately 4.67% between 2021 and 2030, surpassing the minimum average annual reduction of 4.2% defined in the absolute contraction approach for alignment with the 1.5°C decarbonisation pathway.
		SPT 2: Reduce absolute Scope 3 GHG emissions from fuel- and energy-related activities, upstream transportation and distribution and business travel by 25% by 2030 from a 2021 base year	The external reviewer notes that SPT 2 aligns with SBTi's well-below 2°C scenario. This alignment is evident as the SPT implies an average annual reduction in absolute Scope 3 GHG emissions of approximately 2.78% between 2021 and 2030, surpassing the minimum average annual reduction of 2.5% defined in the absolute contraction approach for alignment with the well below 2°C decarbonisation pathway.

Source: DPDHL's SO Report.

7.9 MANUFACTURING – LAFARGEHOLCIM

SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS INFORMATION

COUNTRY	**SWISS**
COMPANY NAME	LafargeHolcim (Holcim)
COMPANY BACKGROUND	Holcim, with a global presence, manufactures building materials and offers innovative and sustainable solutions across four business segments: Cement, Ready-Mix Concrete, Aggregates, and Solutions and Products. The company is the force behind several brands in the building sector, including ACC, Aggregate Industries, Ambuja Cement, Disensa, Firestone Building Products, Geocycle, Holcim, and Lafarge, employing approximately 70,000 people worldwide.
SUSTAINABILITY STRATEGY	Holcim has identified climate change mitigation as part of its long-term priorities. The definition of its CO_2 emissions reduction KPI is consistent with the issuer's long-standing strategy of mitigating climate change.
PROGRAMME TENURE	11 years
ISSUANCE TENURE	11 years
BOND CHARACTERISTIC	Coupon step-up, if SPTs are not met
ISSUANCE STANDARD/ PRINCIPLES	• ICMA SLBP • LMA SLLP
EXTERNAL REVIEWER	ISS ESG

Source: Holcim's Sustainability-Linked Financing Framework.

KPI SETTING

NO	REQUIREMENT FOR KPI SETTING	KPI DETAILS	OPINION OF EXTERNAL REVIEWER
1	KPIs are relevant and material	**KPI 1:** Net CO_2 intensity expressed as net kg CO_2 emitted per ton of cementitious material (Scope 1)	Relevant to Holcim's business as its industry is highly CO_2 emitting and exposed to climate change mitigation solutions (e.g., eco- and energy-efficiency of production processes). Core to the issuer's business as climate change mitigation reduction measures will impact key processes and operations. Material to the issuer's direct operations. However, the KPI does not cover the entire corporate value chain because the KPI solely focuses on Scope 1 emissions, excluding both Scope 2 and Scope 3 emissions, which together represent 25% of the company's overall emissions. By concentrating on Scope 1 emissions, the issuer aims to direct its attention where the most significant impact can be achieved within this framework. Additionally, Holcim has SBTi validated targets to address its Scope 2 and 3 emissions, which are not included in this framework.
		KPI 2: Specific freshwater withdrawal expressed in litres per ton of cementitious material	Relevant to Holcim's business as eco-efficiency of production, especially water efficiency, is a key issue in the construction materials industry and specifically for cement production. Core to the issuer's business as 51% of their cement sites are located in medium to high water-risk areas and Holcim commits to equipping all their sites in water-risk areas with recycling systems. Moreover, when possible, the issuer will shift freshwater to non-freshwater use, which will entail harvesting rainwater. As such, the KPI addresses key processes in the issuer's production chain. Material to Holcim given that the production of cement is highly dependent on water, as water is a key ingredient in the final product as well as a necessary tool in cement's production process (e.g., for cooling). Freshwater is the most commonly used water

			source. Hence, freshwater withdrawal is relevant for a key ESG challenge faced by the issuer, as well as the construction materials industry at large.
2	KPIs are measurable or quantifiable on a consistent methodological basis	**KPI 1:** Net CO_2 intensity expressed as net kg CO_2 emitted per ton of cementitious material (Scope 1)	The chosen KPI is measurable and quantifiable, focusing on the net CO_2 intensity per ton of cementitious material produced, a widely recognised metric in the market. Holcim adheres to established reporting and accounting protocols such as the GCCA Sustainability Guidelines, which support compliance with sustainability standards. These guidelines are based on the CEN Standard EN 19694-34 and are part of the Global Cement and Concrete Association (GCCA) Sustainability Charter. Furthermore, the accounting practices are in line with the GHG Protocol. *Note:* *CEN is the European Committee for Standardisation.*
		KPI 2: Specific freshwater withdrawal expressed in litres per ton of cementitious material	The selected KPI is measurable and quantifiable, with Holcim adhering to the guidelines of the GCCA. The freshwater withdrawal intensity will be assessed as litres of freshwater per ton of cementitious material. Typically, this data is measured at the production site, although it can also be derived through direct measurement or estimation methods.
3	KPIs are able to be benchmarked as much as possible using an external reference or definition to facilitate the assessment of the SPT's level of ambition.	**KPI 1:** Net CO_2 intensity expressed as net kg CO_2 emitted per ton of cementitious material (Scope 1)	By referring to commonly acknowledged CO_2 accounting standards and protocol, the KPI is easily comparable with the data reported by other companies and with international targets such as the Paris Agreement.
		KPI 2: Specific freshwater withdrawal expressed in litres per ton of cementitious material	Since freshwater withdrawal in the cement industry is a key issue, there are multiple sectorial peers who report on the same KPI. A limitation for benchmarking is posed by the possibility that different companies use different methodologies, for example absolute versus intensity target.

Source: Holcim's SO Report.

SPT SETTING

NO	REQUIREMENT FOR SPT SETTING	SPT DETAILS	OPINION OF EXTERNAL REVIEWER
1	Benchmarking against own performance	**SPT 1:** Reduce net CO_2 emissions per ton of cementitious material by 9.7% by 2025 from a 2018 baseline **SPT 2:** Reduce net CO_2 emissions per ton of cementitious material by 17.5% by 2030 from a 2018 baseline	Holcim has been reporting on the historical data of this KPI 1 for several years. The historical performance from 2017 until 2020 as well as the year-on-year reduction rates, which fluctuated between -0.86% and -2.60%, have been documented. The SPTs that Holcim calibrated set out a reduction path with CAGR of -1.45% and -1.59% for SPT 1 and SPT 2, respectively. Additionally, the issuer provided historical performance data on net CO_2 emitted per ton of cementitious material, i.e., Scope 1, as published in the reporting years from 2017 to 2019, which meets the 3 years of historical data as required by the SLBP. In this context and compared to the baseline year, the external reviewer perceives SPT 1 and SPT 2 set by Holcim as ambitious against the company's past performance.
		SPT 3: Reduce specific freshwater withdrawal per ton of cementitious material by 25% by 2025 from a 2018 baseline **SPT 4:** Reduce specific freshwater withdrawal per ton of cementitious material by 33% by 2030 from a 2018 baseline	Holcim provided four years of historical data, with a baseline year set to 2018. The CAGR for SPT 3 and SPT 4 compared to the baseline year respectively were -4.01% and -3.34%, which in both cases is quantitatively lower than the year-on-year reduction rates of the past 3 years. However, in 2020, Holcim withdrew 273 litres of freshwater per ton of cementitious material. The issuer outperforms its competitors on this metric because the direct competitors withdrew an estimated 325 to 492 litres of freshwater per ton of cementitious material. That said, further efforts will be needed for Holcim to continue reducing freshwater withdrawal intensity in the future.

2	Benchmarking against peers	**SPT 1:** Reduce net CO_2 emissions per ton of cementitious material by 9.7% by 2025 from a 2018 baseline **SPT 2:** Reduce net CO_2 emissions per ton of cementitious material by 17.5% by 2030 from a 2018 baseline	The external reviewer benchmarked Holcim's SPTs against its Construction Materials peer group of 98 listed companies. Holcim outperforms its peers in GHG emissions intensity, with lower Scope 1 emissions than the sector average. It is among the top 44% for setting GHG reduction targets and top 11% with SBTi verified targets. Holcim focuses on reducing Scope 1 CO_2 emissions, which account for 75% of its GHG emissions. Its target aims for a Scope 1 GHG intensity that is among the lowest within its peer group by 2030. The external reviewer concludes that SPT 2 is ambitious against the Construction Materials sector peer group in the external reviewer's ESG universe in terms of defining an SBTi-verified Scope 1 GHG emissions reduction target. SPT 1, being a subset of SPT 2, can be regarded as ambitious against peers as well.
		SPT 3: Reduce specific freshwater withdrawal per ton of cementitious material by 25% by 2025 from a 2018 baseline **SPT 4:** Reduce specific freshwater withdrawal per ton of cementitious material by 33% by 2030 from a 2018 baseline	The external reviewer benchmarked Holcim's SPTs against a Construction Material peer group, finding Holcim in the top 17% for target setting among companies setting freshwater reduction targets. Holcim's SPT 3 and SPT 4 were among the top performers in terms of CAGR compared to peers. However, comparing SPTs with peers is limited by differing methodologies. Holcim's internal benchmarking showed freshwater efficiency compared to three competitors in 2020. While this benchmarking exercise assesses current performance rather than target setting, it is important to note that the level of freshwater withdrawal of Holcim has been more efficient than the 3 direct competitors in the past. Overall, the external reviewer concludes that Holcim's SPTs are ambitious relative to sector practices in defining freshwater reduction targets.
3	Benchmarking against science-based scenarios or international targets	**SPT 1:** Reduce net CO_2 emissions per ton of cementitious material by 9.7% by 2025 from a 2018 baseline **SPT 2:** Reduce net CO_2 emissions per ton of cementitious material by 17.5% by 2030 from a 2018 baseline	Based on the SBTi validation of the 2030 target, the external reviewer finds that SPT 2 is in line with the Paris Agreement and therefore ambitious against international standards. Furthermore, these targets align with Holcim's longer-term goal of becoming a net-zero company by 2050, which has also received separate SBTi verification. Lastly, Holcim is collaborating with SBTi to develop a roadmap for aligning climate targets to a 1.5°C future in the cement sector. The external reviewer concludes that SPT 2 is ambitious against the Paris Agreement, and SPT 1 is in line with the pathway for Scope 1 emissions reduction by 2030 to keep warming to well-below 2°C.
		SPT 3: Reduce specific freshwater withdrawal per ton of cementitious material by 25% by 2025 from a 2018 baseline **SPT 4:** Reduce specific freshwater withdrawal per ton of cementitious material by 33% by 2030 from a 2018 baseline	The GCCA released sustainability guidelines for water monitoring and reporting in cement manufacturing in October 2019. Given the cement industry's reliance on water, addressing water use impacts is crucial. Holcim adheres to industry standards by aligning its KPI and SPT with GCCA's guidelines. However, the GCCA has not conducted target setting for the industry.

Source: Holcim's SO Report.

CHAPTER 8

INCENTIVES FOR ISSUERS OF SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS

INCENTIVES FOR ISSUERS OF SUSTAINABILITY-LINKED FIXED INCOME INSTRUMENTS

THE SC'S SRI SUKUK AND BOND GRANT SCHEME

Recognising the role of the SRI Sukuk market in financing the country's sustainable development needs and to further facilitate its growth, the SC introduced several incentives to encourage issuance of for SRI Sukuk/bonds and SRI-linked Sukuk/bonds. In 2018, the SC established the Green SRI Sukuk Grant Scheme to assist issuers in defraying up to 90% of the external review costs for green SRI Sukuk, subject to a maximum of RM300,000 per issuance.[20] The Grant Scheme, later renamed SRI Sukuk Grant and Bond Grant Scheme, was later expanded to include issuances under the SC's SRI Sukuk Framework and bonds issued in Malaysia under ASEAN's Green, Social and Sustainability Bond Standards.

Subsequently in August 2022, the grant scheme was expanded to include issuances under the SRI-linked Sukuk Framework, including bonds under the ASEAN SLBS. The purpose of expansion in scope was to encourage companies' transition to low-carbon alternatives and facilitate adoption of better sustainability practices by corporates in carbon-intensive industries. Income tax exemptions were also made available to recipients of the SRI Sukuk Grant and Bond Grant for a period of five years from Year of Assessment (YA) 2021 to 2025.

Other tax incentives to encourage the issuance of SRI Sukuk and SRI-linked Sukuk include (1) tax deduction on issuance cost for all types of SRI Sukuk authorised or lodged with the SC for YA 2016 to 2023 (subsequently extended from YA 2024 to 2027) and (2) tax deduction on issuance costs of SRI-linked Sukuk authorised or lodged with the SC for YA 2023 to 2027.

Interested issuers are advised to refer to the SRI Sukuk and Bond Grant Scheme Application Form, which outlines the eligibility conditions and the accompanying FAQs section within.

[20] Source: SRI Sukuk and Bond Grant Scheme to encourage capital market fund raising for sustainable development.

CHAPTER 9

CONCLUSION

CONCLUSION

This Handbook has been developed to assist issuers, bankers and various stakeholders in the issuance of Sustainability-Linked Fixed Income Instruments in the market. It offers facilitative guidance for issuers in setting appropriate KPIs that effectively measure the organisation's sustainability performance and identifying SPTs which align with their overarching sustainability goals. Additionally, the compilation of Sustainability-Linked Fixed Income Instrument case studies across various sectors can also be leveraged by issuers when determining their respective KPIs and SPTs.

Prioritising the segment's growth is key, particularly advancing the nation's energy transition goals through the mobilisation of sustainable finance instruments, including SLS. Thus, it is important for capital market stakeholders to collaborate and further accelerate the issuances of Sustainability-Linked Fixed Income Instruments in Malaysia.

For further guidance or information, please refer to:

- ICMA's The Principles Guidance Handbook
- ICMA's SLBP Related Questions
- ASEAN Sustainability-Linked Bonds Disclosure Checklist

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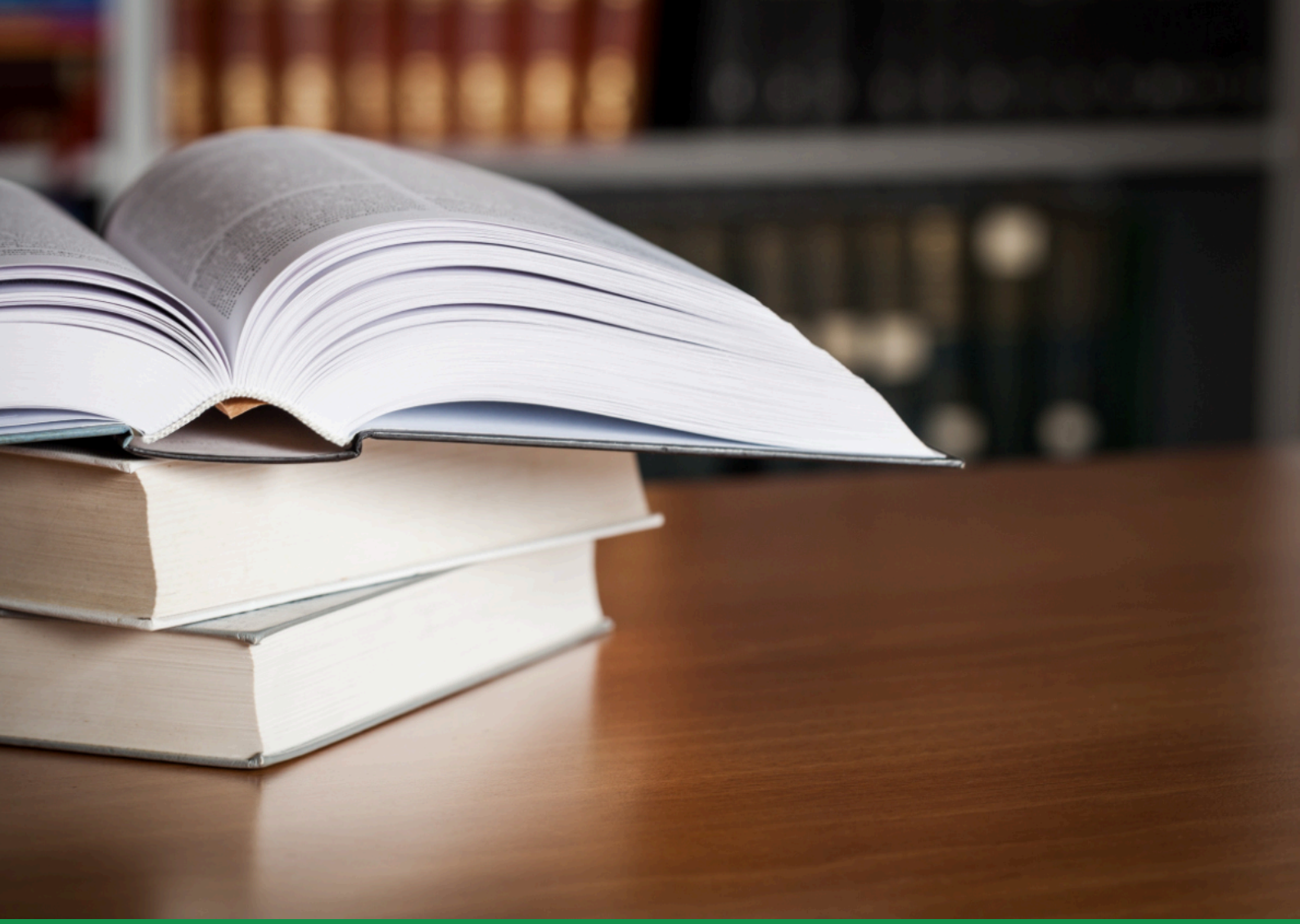
Further consultation for feedback was also carried out with ICMA, JC3 SC3 members and Malaysian Investment Banking Association (MIBA).



ACRONYMS AND ABBREVIATIONS

ACRONYMS AND ABBREVIATIONS

ACMF	ASEAN Capital Markets Forum
AFII	Anthropocene Fixed Income Institute
APLMA	Asia Pacific Loan Market Association
b.p.	Basis points
BEI	Building Energy Intensity
CAGR	Compound Annual Growth Rates
CBI	Climate Bond Initiative
CCUS	Carbon capture, utilisation and storage
CO_2	Carbon dioxide
DFI	Development Finance Institutions
ESG	Environmental, Social and Governance
FYE	Financial Year Ending
GBP	Green Bond Principles
GBTP	Green Bond Transparency Platform
GCCA	Global Cement and Concrete Association
GHG	Greenhouse gas
GLEC	Global Logistics Emissions Council
ICMA	International Capital Market Association
IDB	Inter-American Development Bank
IEA	International Energy Agency
IFRS	International Financial Reporting Standards
ISSB	International Sustainability Standards Board
JC3	Joint Committee on Climate Change
KPI	Key Performance Indicators

LMA	Loan Markets Association
MIBA	Malaysian Investment Banking Association
NETR	National Energy Transition Roadmap
NSRF	National Sustainability Reporting Framework
NZEB	Nearly Zero Energy Buildings
REIT	Real Estate Investment Trust
SBG	Sustainability Bond Guidelines
SC	Securities Commission Malaysia
SBTi	Science Based Targets Initiative
SDG	Sustainable Development Goals
SLB	Sustainability-linked Bond
SLBP	Sustainability-Linked Bond Principles
SLBS	Sustainability-Linked Bond Standards
SLLP	Loan Syndication and Trading Association Sustainability-Linked Loan Principle
SLS	Sustainability-linked Sukuk
SO	Second Opinion
SOx	Sulphuric Oxide
SPT	Sustainability Performance Targets
SRI	Sustainable and Responsible Investment
SRI-linked	Sustainable and Responsible Investment Linked
TPI	Transition Pathway Initiative
UoP	Use of Proceeds
YA	Year of Assessment

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