

Special Report

# Transition Finance: Sustainability Linked Bonds (SLBs)

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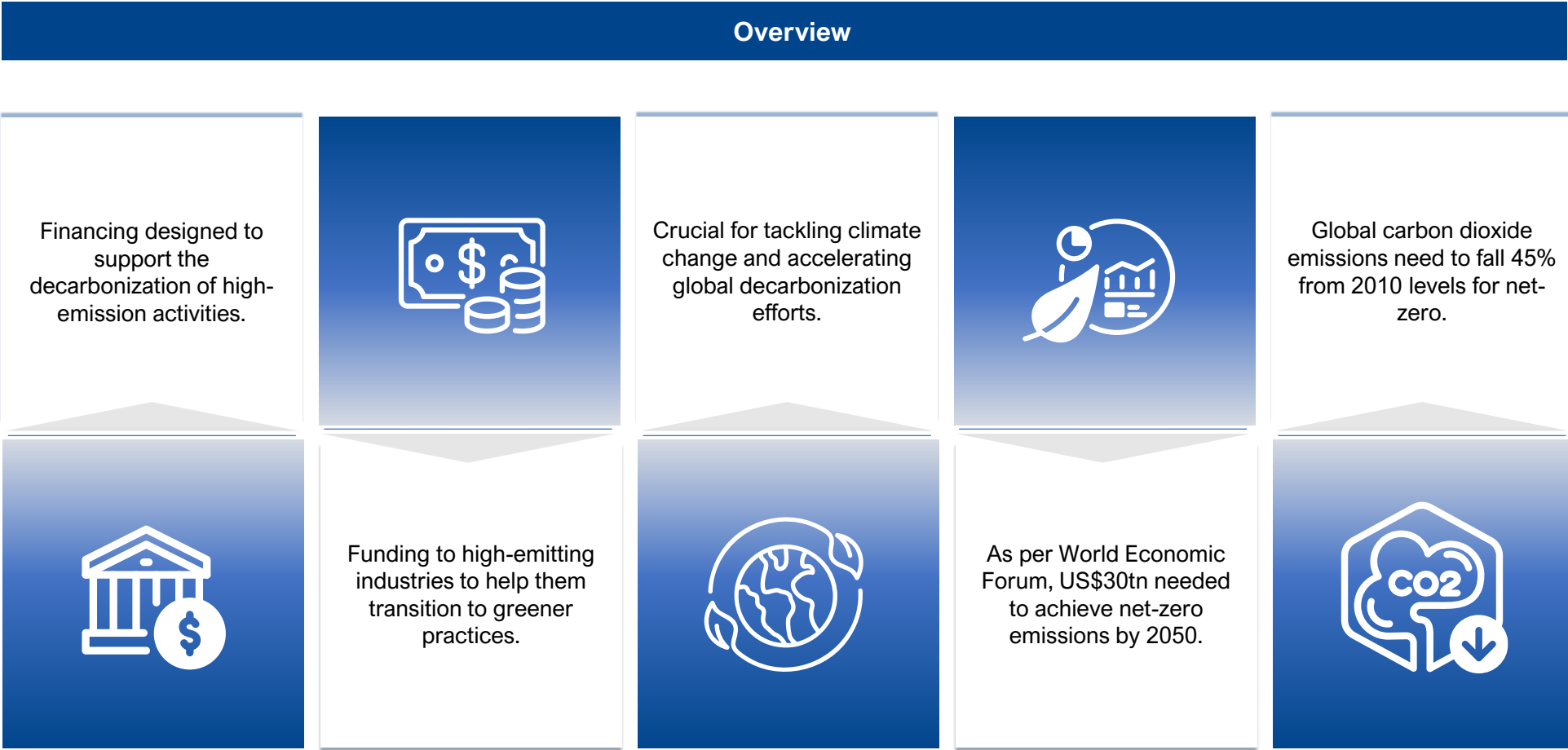
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# Transition Finance: A solution for path to decarbonization



# Transition Finance: Strategies

## Strategies for Transition Finance



### Finance those already transitioning

- Provide capital (debt/equity) to companies with credible, time-bound transition plans, and prioritize issuers whose where targets are aligned with a science-based pathway.



### Engage to accelerate transition

- Use active stewardship (engagement, voting, escalation) to push high emitters to raise ambition, disclose targets, and meet interim milestones.



### Enable via technology & CapEx financing

- Mobilize patient and structured capital (project finance, blended finance, concessional tranches) to de-risk and scale low-carbon technologies (e.g., grids, storage, CCS, green hydrogen and industrial electrification).



### Support transition-enabling activities

- Invest in broader enablers: supply-chain decarbonization, workforce transition, emissions measurement infrastructure, so transitions are feasible and socially equitable.

# Key Frameworks & Standards – Introduction

Around 138 countries have announced national **net-zero targets**, with many advanced economies aiming for net zero by 2050, while some emerging economies target 2060 or later. Quality and implementation differ, and gaps exist in the sectoral policies and transition plans needed to turn pledges into real emissions reductions. Achieving net zero requires translating a high-level emissions target into concrete company actions, bankable investment choices, and investor-grade reporting so that capital can be directed, measured, and held to account.

## Key Frameworks & Standards

- **SBTi:** An independent validator that converts climate science into clear rules for credible corporate and financial institution emissions targets and sectoral pathways.
- **European Union (EU) Taxonomy:** A technical rulebook that turns high-level climate and environmental goals into activity-level thresholds so investors can identify which economic activities genuinely contribute to the transition.
- **IFRS Sustainability Disclosure Standards S1 and S2:** A global reporting baseline that integrates sustainability information into mainstream financial reporting so investors can compare risks, performance, and transition progress across issuers.

**Source:** SBTi, EU Taxonomy, IFRS

# Key Frameworks & Standards – Highlights

| Framework                                          | Purpose Served                                                                                                                                                                                                                                                                                      | Applicability                                                                                                                                                                                                                                                                       | Key Limitations                                                                                                                                                                                                                                                                            |
|----------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| SBTi                                               | <ul style="list-style-type: none"> <li>Validates company and financial institution greenhouse gas emissions reduction targets.</li> <li>Provides sector-specific methods and guidance for target setting.</li> </ul>                                                                                | <ul style="list-style-type: none"> <li>Companies and financial institutions worldwide that choose to set science-based targets.</li> <li>Targets include criteria for financial institutions and a net-zero standards.</li> </ul>                                                   | <ul style="list-style-type: none"> <li>Focuses on target setting and validation rather than activity-level screening or formal disclosure formats.</li> <li>Effectiveness depends on issuer data quality, and SBTi does not itself define financed emissions accounting rules.</li> </ul>  |
| EU Taxonomy                                        | <ul style="list-style-type: none"> <li>Classifies economic activities that are environmentally sustainable to guide investors and direct capital.</li> <li>Uses technical screening criteria and a 'Do No Significant Harm' requirement</li> </ul>                                                  | <ul style="list-style-type: none"> <li>Mandatory for companies and financial market participants subject to EU disclosure rules.</li> <li>Used by many companies inside and outside the EU as an activity screening tool.</li> </ul>                                                | <ul style="list-style-type: none"> <li>Technical criteria are complex, and the taxonomy does not itself validate company targets.</li> <li>Coverage and usability challenges exist for some transition activities</li> <li>Technical screening criteria under ongoing revision.</li> </ul> |
| IFRS Sustainability Disclosure Standards S1 and S2 | <ul style="list-style-type: none"> <li>Sets investor-focused disclosure requirements for sustainability-related risks and opportunities.</li> <li>S1 provides general requirements.</li> <li>S2 covers climate-related disclosures, including governance, strategy, and risk management.</li> </ul> | <ul style="list-style-type: none"> <li>Applies to entities preparing general-purpose financial reports in jurisdictions that adopt the IFRS Sustainability Standards.</li> <li>Intended to make sustainability information comparable and decision useful for investors.</li> </ul> | <ul style="list-style-type: none"> <li>Establishes disclosure requirements but does not set performance targets or activity screening criteria.</li> <li>Jurisdictional adoption, data availability, and implementation challenges for smaller issuers remain material issues.</li> </ul>  |

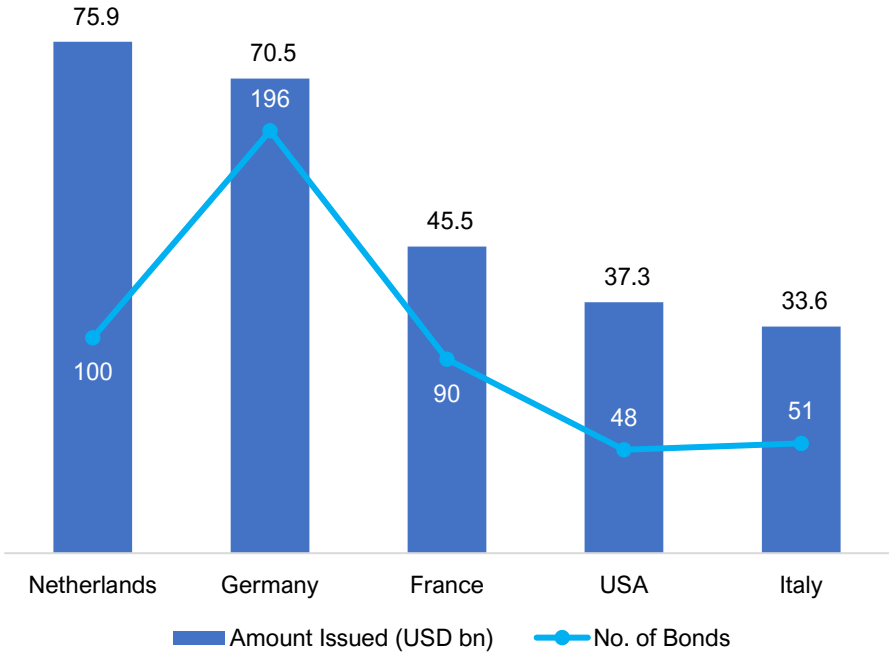
**Source:** SBTi, EU Taxonomy, IFRS

# SLBs – Overview and Market Profile

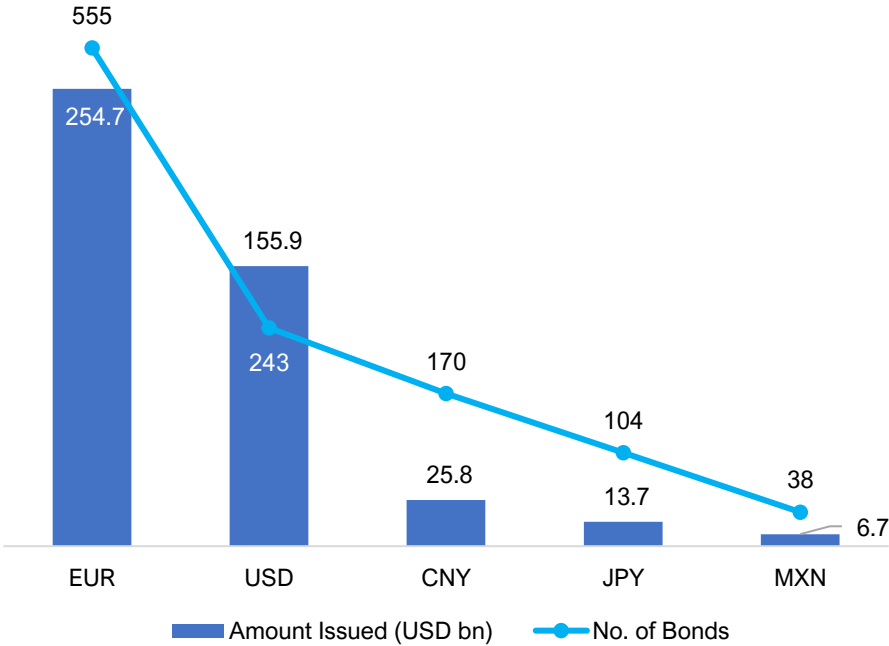
## Overview

- Sustainability-Linked Bonds (SLBs) are tools by which companies raise transition finance. According to The International Capital Market Association’s (ICMA) SLB Principles (SLBP) June 2024, SLBs are bond instruments for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ESG objectives. Issuers commit to future improvements in sustainability outcomes within a predefined timeline.
- Objectives: (i) measured through predefined Key Performance Indicators (KPIs)  
(ii) assessed against predefined Sustainability Performance Targets (SPTs).

## Top Five Geographies

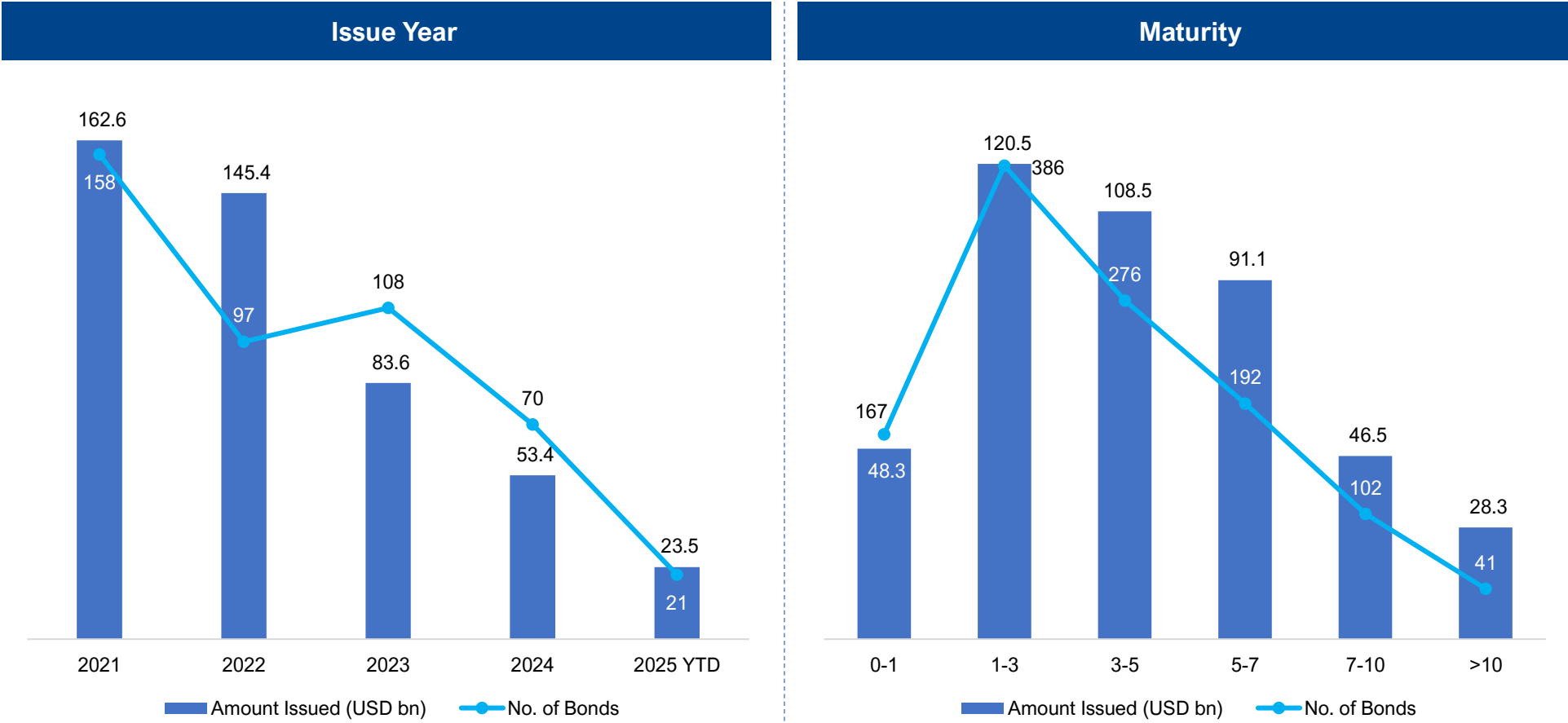


## Top Five Currencies



Source: ICMA SLBP June 2024, Bloomberg

# SLBs – Market Profile



- Issuance peaked in 2021 and has since contracted markedly, primarily driven by higher interest rates, fewer large refinancing windows, and greater issuer caution after heightened scrutiny of sustainability claims.
- The maturity mix is concentrated in short- and medium-term tenors (from one to seven years) while average ticket sizes grow with tenor, suggesting investors and issuers are matching transition capital to short-term CapEx cycles and reserving long-dated financing for large corporate and infrastructure transactions.

Source: Bloomberg



## SLBs – Market Profile

| Industry               |                         |              | Payment Rank     |                         |              |
|------------------------|-------------------------|--------------|------------------|-------------------------|--------------|
| Issuer Industry        | Amount Issued (US\$ bn) | No. of Bonds | Payment Rank     | Amount Issued (US\$ bn) | No. of Bonds |
| Utilities              | 99.4                    | 177          | Sr. Unsecured    | 410.0                   | 1,018        |
| Industrials            | 78.7                    | 270          | Secured          | 45.8                    | 107          |
| Materials              | 69.8                    | 190          | Unsecured        | 27.9                    | 166          |
| Consumer Staples       | 63.3                    | 157          | 1st lien         | 6.8                     | 45           |
| Consumer Discretionary | 51.3                    | 171          | Subordinated     | 4.7                     | 28           |
| Financials             | 36.7                    | 198          | Sr. Preferred    | 0.6                     | 1            |
| Energy                 | 25.0                    | 50           | Jr. Subordinated | 0.4                     | 5            |
| Communications         | 20.6                    | 46           | 2nd lien         | 0.2                     | 2            |
| Government             | 19.2                    | 31           | Sr. Subordinated | 0.1                     | 1            |
| Health Care            | 17.1                    | 37           |                  |                         |              |
| Technology             | 15.2                    | 46           |                  |                         |              |

- Utilities, together with the Industrials, Materials, and Consumer sectors, drive the market because their large CapEx needs to decarbonize infrastructure and hard-to-abate processes create bankable investment opportunities and repeat issuance.
- Senior unsecured structures dominate, driven by simplicity in execution and higher appeal to a broad investor base, making it easier to link issuer-level key performance indicators to financing, while secured and subordinated formats remain niche for project-level or credit-enhanced deals.

Source: Bloomberg

# Outlook

## Summary

- Transition finance remains essential to mobilize the scale of CapEx needed to meet net-zero emissions by 2050 and to translate high-level targets into investable projects. SLBs are a key instrument to facilitate the funding of these transition efforts.
- However, SLB issuance has declined significantly after peaking in 2021. The factors driving this decline are:
  - Higher interest rates
  - Rising political uncertainty
  - Weakened commitment of the financial sector to advance decarbonization objectives
  - Lack of clarity related to the ambition of sustainability targets

## Outlook

- The challenges faced by SLBs remain, which is likely to constrain near-term issuance in many markets.
- However, pockets of opportunity remain in low-income and emerging economies, where issuance could increase to help close the climate finance gap, with European sovereigns and supranationals expected to play a catalytic role.
- Greater transparency in impact and allocation reporting, combined with a friendlier regulatory environment, would help rebuild SLB credibility and unlock the refinancing of existing sustainable debt.
- Falling interest rates and rising mergers and amalgamations could lead to renewed supply in both conventional and sustainable bond markets. The willingness of asset managers to back investment demands for global decarbonization, coupled with the verification of the real-world impact of SLB issues, are key factors that could influence issuance.



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