

JCR Commenced Sustainability-Linked Bond Evaluations

Japan Rating Agency, Ltd. (JCR) has begun to provide third-party opinions and post-issuance verification on the Sustainability-Linked Bond (SLBs).

SLBs are any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ ESG objectives. Issuers are thereby committing explicitly to future improvements in sustainability outcome within a predefined timeline.

SLBs are measured through predefined Key Performance Indicators (KPIs) and assessed against predefined Sustainability Performance Targets (SPTs). With respect to KPIs, SPTs has been set as the objective to be achieved and the terms of the bond can vary depending on whether KPIs has reached predetermined SPTs.

The proceeds of SLB are intended to be used for general purposes, hence the use of proceeds is not a determinant in its categorization. Regardless, in select cases, issuers may choose to structure the product by specifying the use of the proceeds and combine the Green Bond Principle/Social Bond Principle approach with the Sustainability Link Bond Principles (SLBP) formulated by the International Capital Markets Association (ICMA) in June 2020.

The SLBP have five core components:

1. Selection of Key Performance Indicators (KPIs)
2. Calibration of Sustainability Performance Targets (SPTs)
3. Bond characteristics
4. Reporting
5. Verification

JCR provides both pre-issuance Second Party Opinion which is recommended, comment on the structure of SLBs and post issuance verification which is a necessary element of the SLBs defined in the SLBP's five core components. Second Party Opinion is JCR's opinion to the bond of the issuer regarding the suitability to the SLBP including the relevance of the company's sustainability/ESG strategy to KPIs and SPTs. Post issuance verification involves verifying the performance of predefined KPIs and SPTs in accordance with ISAE3000. In some cases, depending on the type of KPI, JCR may recommend to verify it from other third parties¹.

Prior to the SLBs, JCR has already begun providing Second Party Opinions in accordance with the Sustainability Linked Loan Principles (SLLP) for the structuring of Sustainability Linked Loans. In the

¹ Since September 2019, JCR has been conducting verification operations for Climate Bonds as an accredited verification organization in Climate Bonds Initiative, and has established a framework for expertise, independence and internal control based on ISAE3000 for conducting verification.

perspective of positive impact finance including sustainability linked finance, JCR is also working to provide Second Party Opinions on finance based on the Positive Impact Finance Principles set by the United Nations Environmental Programme and Finance Initiative (UNEP FI). In addition to SLLP, the announcement of international principles on SLBP means that financial support for improvement sustainable management and long-term corporate value will become increasingly diverse. Through such financing, JCR expects to deepen dialogue with investors and corporates based on its long-term vision. Through the launch of this new service, JCR will continue to contribute to the development of Japan's sustainability and ESG finance by providing financial market participants with information on the sustainability and ESG strategies of issuers and information on the appropriateness of KPIs and SPTs..

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