Sustainable Fitch
a FitchSolutions Company

Sustainable Finance
Cross-Sector
Global

Second-Party Opinion Methodology

Table of Contents

Sustainable Fitch – SPO criteria

criteria@sustainablefitch.com

Scope

This report describes the methodology Sustainable Fitch applies to produce Second Party Opinions (SPOs) on environmental, social and governance (ESG) debt frameworks and instruments, generally upon issuance.

We produce SPOs for green, social, sustainable (GSS) and sustainability-linked (SLB) debt instruments, collectively referred to as "labelled GSSS instruments", as well as their frameworks. These include entity secured and unsecured debt instruments (bonds and loans) of corporates; financial institutions; infrastructure; public finance; sovereigns, supranationals and agencies (SSAs); and structured finance transactions. There is a difference in approach for GSS and SLB debt instruments as the latter is focused on certain sustainability objectives and not on use of proceeds (UoP).

We prepare point-in-time SPOs before an instrument is issued, providing the market with an ex-ante opinion on an instrument's impact and alignment with relevant environmental and social principles and/or guidelines. These features distinguish SPOs from our Framework Ratings, which are published after an instrument has been issued and are monitored annually until an instrument matures.

Methodology

Our SPO product provides an independent baseline assessment of the degree of alignment of a GSSS labelled debt instrument and its framework with principles and/or guidelines that are generally accepted by the market. These include, but are not limited to, those prepared by:

- International Capital Markets Association (ICMA)
- Loan Market Association (LMA)
- Asia Pacific Loan Market Association (APLMA)
- Loan Syndications and Trading Association (LSTA)

A key focus of an SPO is an analysis of the environmental and/or social impact of a GSSS debt instrument framework, and an issuer's commitment to following market best practices. An additional feature of our SPO assessment provides the market with an assessment on a labelled instrument's additionality towards environmental and social advancements, drawing on the knowledge and experience of our global team of sustainable finance analysts.

For transparency, the appendices in this document include our line-by-line scoring considerations, information on the relevant standards used to benchmark a framework's alignment with best practices, and the reference taxonomies that help us gauge the degree of environmental and/or social impact associated with a framework's stated UoP.

The outcome of the analysis is represented in the following four-point scale:

Excellent	Positive
Good	Positive
Aligned	Positive
Not Aligned	Negative

We consider and identify alignment with the principles and/or guidelines in the analysis on the first page of the report, which also includes the publishing date for the assessment, and we update any material changes to the debt instrument GSSS framework.

The Process for GSS Instrument SPOs and Factors We Assess

Factors We Consider for GSS Instruments

We view that there are essential features for an issuance to be effective and assess the degree to which they contribute to environmental and social advancements, we consider that:

- the eligible UoPs are able to provide environmental and/or social benefits;
- the issuer has an established process for project evaluation and selection;
- the issuer has an established process to manage the proceeds of the debt instrument; and
- there is a commitment in place for reporting of both allocation and impact information, which is available until a full allocation of proceeds.

The weightings and scope of analysis for each of the factors are as follows:

Factors	Weight (%)	Scope of analysis
UoPs – Detailed analysis of each UoP (Part A)	40	Degree and strength of the contribution of each UoP to environmental and social improvement, with reference to net-zero by 2050 and other broader environmental and social goals through generally accepted international standards and taxonomies.
UoPs – Other information on UoPs (Part B)	10	Strength of the framework considering financing versus refinancing, lookback periods, transitions pathways, UoP definitions and identification of controversial projects.
Project evaluation and selection	15	Strength of the framework in relation to the evaluation and selection process of various projects financed.
Management of proceeds	15	Strength of the framework in relation to how the proceeds are managed.
Reporting and transparency	20	Strength of the framework in relation to the allocation and impact reporting.

Source: Sustainable Fitch

Factor I: UoPs – Detailed Analysis of Each UoP (Part A)

This part of the assessment involves engagement with the issuing entity, a review of the instrument's legal documentation, and its offering memorandum or framework in order for us to identify and evaluate the predefined UoPs. Each UoP is graded from 1 to 5 (with 1 being best and 5 being worst) from an environmental and/or social impact perspective.

The assessment of environmental alignment and impact takes inspiration from net-zero by 2050 and other broader environmental goals. To determine this alignment, we refer to major science-based taxonomies, while the evaluation of social aspects is largely based on contributions to the social aspects of the UN Sustainable Development Goals (SDGs). Below is the scoring scale, broken down by the impact of the environmental and social UoPs.

Score		Environmental	Social
1	Best	UoP is aligned with net zero and ambitious environmental goals. It meets the reference taxonomies under any circumstance, i.e. no additional thresholds, meets screening criteria.	UoP directly contributing to the social SDGs (for both activity and target population, e.g. vulnerable communities).
2		UoP subject to threshold, screening criteria marginally not met or potential minimum damage, albeit mitigated.	UoP contributing to the social SDGs (focusing on an activity but not on a target population).
3		UoP neutral to the environment (with no direct positive or negative impact).	UoP neutral to the social SDGs (with no direct positive or negative impact).
4		UoP subject to threshold, screening criteria significantly not met or potential for high damage.	UoP with marginal or limited negative impact on the social SDGs; or activity with high negative impact on social SDGs that is partially mitigated.
5	Worst	UoP always with negative impact with potential for high damage.	UoP with significant or high negative impact on social SDGs that is unmitigated.

The mentioned bands have to be considered as a wider indication, as individual UoPs can be scored with increments of 0.05 to best differentiate them. A score less than three (i.e. 2.25, 1.75) indicates a positive impact and alignment with the respective principles; while the actual score determines the degree of impact. Each individual UoP must have a positive score in order to align with the principles.

Once we have individually analysed each UoP, we calculate an aggregated UoP score based on the allocation percentage. In the vast majority of cases, the actual allocation is not available at the time of the analysis (pre-issuance), but we will initially consider equal apportionment. Should guidelines on allocation be available (i.e. at least 70% on a certain UoP), we will duly consider those and embed them into the calculation.

Factor II: UoPs – Other Information on UoPs (Part B)

Financing Versus Refinancing: An understanding of the bond's contribution to achieving sustainability goals is key in this section of our assessment. We calculate the split of funding allocated to new and existing projects. This is important as the higher the share of new projects funded, the better the expected impact from the instrument's proceeds, in terms of additionality towards environmental and social objectives.

Given that entities are different and operate with diverse business models, we are considercorporate issuers as different from sovereigns or sub-sovereigns (or entities with core or long-term infrastructures) in the context of this question. For example, we will consider multi-year programmes administered by sovereign or sub-sovereign issuers (i.e. aimed at education, etc) as "new financing" as they may be addressed to different individual beneficiaries over the life of the programme (even if under the same programme).

Lookback Period: We assess the age of the projects and activities financed by the labelled instrument under analysis. This allows us to evaluate the incremental future impact of the debt instrument. We consider proceeds used entirely for new projects to have a better ESG impact, and that a reasonable lookback period for projects is no more than three years.

Controversial Projects: Based on the UoP selected, we check if there are explicit bans on controversial projects, either from an environmental or social perspective, to ensure that funds are not allocated to projects with a potentially harmful ESG impact.

Additional Features: As the innovation in the labelled instruments space has proven to be quite "productive", we are also introducing an open-ended category to be able to consider and analyse further features (i.e. targets, derivatives) with environmental or social benefits that can be added in the financial structure of the analysed instruments.

Factor III: Project Evaluation and Selection

Pre-defined Selection Process: We identify whether a pre-defined and clear process is in place to identify and select eligible projects and activities that the bond proceeds would be allocated to.

Internal Checks and Balances Among Relevant Teams: We evaluate whether there are multiple teams or an ad-hoc multi-skills committee involved in the UoP decision-making process, or whether decisions are made by a single department or team, with or without sustainability skills or attributes. We believe decisions taken by committees made up of representatives from a range of business units can help to avoid the risk of green or social washing.

Internal Control Structure: We evaluate and review an entity's project selection process to understand whether there is a division of duties between the group of people who propose eligible projects and those making the decision to approve or reject them. This reinforces internal debate on project eligibility so that proceeds are assigned in a manner that promotes positive environmental and/or social contribution.

Factor IV: Management of Proceeds

Proceeds Tracking Method: We assess whether the issuer is using a suitable tracking method to guarantee that the proceeds raised by the instrument will be used appropriately. For example, setting up an SPV to segregate the proceeds, or using a dedicated bank account, can help ensure that the proceeds are used for specific eligible assets and that commingling of funds with those for non-eligible projects can be avoided.

Unallocated Proceeds: We assess how the entity is going to use, or is using, the unallocated proceeds, and whether they are applied to environmental or social projects or are invested in the same manner as the entity's other treasury investments.

Allocation Monitoring: We assess if, and how, the issuer is performing eligibility monitoring on the allocated UoPs. If an allocated project loses its eligibility, we seek to see if there is a procedure in place to remove such a project from the allocation.

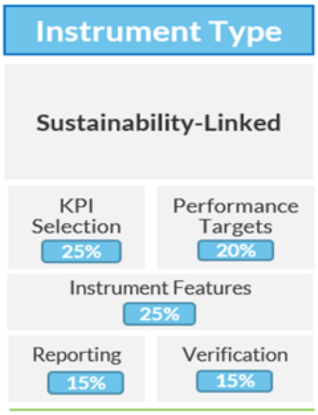
Factor V: Reporting and Transparency

Allocation Reporting: This is a key transparency metric as it allows investors to understand effective allocation of proceeds, the frequency commitment, and type of details provided (e.g. granularity of information). We review whether the commitment in the allocation reporting is a mandatory obligation or is a less binding, intention-based commitment.

Impact Reporting: The environmental and social impact from labelled bonds or loans are important to our assessment. We assess the impact report, as well as its frequency, quality and granularity of data provided. We view it as positive when the issuer has used a recognised standard for impact reporting. The report can include data provided at asset or project level, aggregated by a group of similar projects, or at portfolio level. The more detailed the provided disclosure is, and the greater its transparency, the better it is for the market.

Qualified Verification: We assess the frequency and type of verification provided. We view it as positive when asset allocations are verified by a qualified, independent body or individual, and their green and social impact reviewed, ideally on an annual basis.

The Process for Sustainability-Linked Instrument SPOs and Factors We Assess



Baseline Factors We Consider in the Assessment

We view the following factors as minimum requirements for an SPO with a positive outcome:

- The five pillars are made available to stakeholders.
- The key performance indicators (KPIs) and sustainability performance targets (SPTs) are clearly selected and defined.
- Clear description of the impact on the instrument when KPI(s) meet SPT(s).
- Reporting (with verification) made available at least annually for the period/date relevant.

Once we confirm factors have been met, we then assess additional factors included in the table below with their respective weightings and analytical scope.

Factor	Weight (%)	Scope of analysis
KPI(s)	25	Strength of the selected KPI(s).
SPT(s)	20	The quality and ambition of the performance targets.
Instrument features	25	Strength of the ESG-related instrument features in the framework.
Reporting	15	Strength of the reporting and disclosure.
Verification	15	Strength of the verification process.

Source: Sustainable Fitch

We also assess the soundness of the defined KPIs and associated targets. It is important that the indicators be relevant, ambitious, credible and measurable with performance tracked over a time period against a pre-defined benchmark.

KPI(s)

Measurement: We assess the KPIs considered in the instruments across multiple dimensions:

- The relevance of the entity from an ESG perspective (i.e. materiality for the entity/sector of operations).
- The proportion of the entity covered (i.e. the whole entity or partial).
- The methodology of reference (i.e. external standard / recognised).
- The metric's transparency (i.e. direct versus indirect measure).

For example, if the KPI is related to an external ESG rating, then the transparency of this underlying metric, as well as its dynamics, are being disclosed.

Historical Disclosure: We gain an understanding of the company's record and ambition, and assess whether the KPI has been determined and disclosed in previous years, giving more value to KPIs, which have been used over a time period, as well as to the company's record and ambition.

Qualified Verification: We assess whether a qualified independent specialist or an auditor was involved in the verification of the KPIs at issue date and historically, enabling us to understand the importance of the target to the entity.

SPT(s)

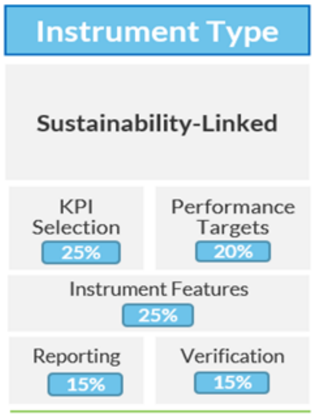
In this section, we assess certain parameters related to the sustainability performance targets:

Quality: We qualify the targets identified in the framework or instrument as being verified by the Science Based Targets initiative (SBTi), part of a science-based taxonomy or part of a wider entity strategy that is net-zero aligned. When the target is focused on social topics, we will value the contribution to relevant SDGs and the focus on certain vulnerable populations.

Ambition: When looking at the ambition of the targets, we will be analysing it with respect to the entity's internal baseline, entity peers, and in some cases to the country or region of operations.

Time of Target Observation: Observation dates for targets are important as their positioning could result in opportunistic behaviour and misleading readings. For example, testing too early in the life of the bond may reduce the relevance of the targeted ambition. Similarly, testing too late during the life of the bond may limit the impact of achieving or missing the target.

Peer Comparison: We assess the key ESG targets of an entity and address relevant comments about the target where necessary. In order to carry out our assessments, we need to gain an understanding as to whether the identified target is absolute and based on company-only performance, and how it compares with the performance of other parties.



Instrument features

The two key factors we evaluate are:

Impact of Instrument: We assess the impact of the KPI meeting (or not meeting) the corresponding SPT by considering different types of impact, including financial and structural. For the financial impacts, we focus on typical market practices for each of the different markets (i.e. investment grade bonds; sub-investment grade bonds). The same is valid when it comes to different types of financial impact (i.e. bp step up; premium on principal). The bigger the impact on the company's funding costs or instrument structure, the bigger the incentive to meet the target, which increases the value of the KPI in our assessment.

Market practices (some references)	
For loans	5 bp
For investment grade bonds	25bp
For sub-investment grade bonds	37.5bp
For premium on principal	0.3% to 0.5%

Dynamic or Static Target: We analyse the potential future transformations that the entity could be subject to when defining the KPI or target (e.g. M&A, disposals, and other changes to the entity perimeter). Ideally, a company identifies ways to incorporate such a parameter change in the calculation of its KPIs and targets.

Reporting and Verification

Our review of reporting and verification for KPI-linked instruments is similar to that for GSS bonds:

Reporting: We assess the availability of publicly available reporting on KPI(s) and SPT(s), the reporting frequency and informative details.

Verification: We assess the frequency, the publication, as well as the type of verification provided. In particular, we assess the strength of the verification or technical analysis sought by the issuer. We would consider as stronger a verification performed on impact achieved (i.e. amount of GHG emissions generated) vis-a-vis a verification on financial metrics (i.e. invested amount).

Appendix 1: Additional Asset Classes

SPO Approach for Structured Finance and Other Secured Funding

When analysing structured finance transactions and frameworks (and any other secured transaction), we start with identifying the specific type of transaction under analysis:

a) Secured green (or social or sustainability) collateral instrument
b) Secured green (or social or sustainability) standard instrument

Identifying the type above is important to understand the features of the instrument itself (i.e. green collateral versus green UoP(s) with conventional collateral).

After that, we analyse a series of factors as follows:

Asset Tracking Method: We assess the recourse of the sustainable investor to the assets with environmental or social characteristics in priority to other creditors, and how these assets are segregated from the rest of the collateral.

Asset Substitution: Should the asset no longer be eligible (or lose its environmental or social features), we measure the extent of the willingness and ability of the entity to substitute assets. An example would be any external obligation to maintain a certain level of GSS assets similar to the requirement by the European Banking Authority to calculate the green asset ratio.

Cash Balance: When looking at the ancillary and supporting cash balances, we look at how those can be potentially invested (if segregated).

Quantity of the GSS Assets: We verify the amount of GSS assets available in the structure in relation to the analysed instrument volume, and the overall collateral amount available.

Frameworks with Combinations of Features

We have noticed that there may be situations where frameworks have multiple approaches:

a) Frameworks that can allow for GSS instruments or sustainability-linked instruments: in this case the analysts will analyse the two (or more) types of potential instruments separately and show the outcome for each type separately in the report.
b) Frameworks that can allow for an instrument to have GSS UoP and sustainability-linked features at the same time: in this case the analysts will use the “Additional Features” area in “UoPs - Other Information on UoPs” to include references to KPI(s)/SPT(s) and impact.

Appendix 2: SPO Additional Sections

ICMA External Review tables (add-on)

As needed by the entity, we can add the corresponding ICMA External Review tables at the end of the report, in the first appendix (Appendix A). Please see below an excerpt for green instruments, for reference. Similar tables are available for social, sustainability and sustainability-linked instruments.

Appendix A: Principles and Guidelines

Type of Instrument: Green	
Four Pillars	
1) Use of Proceeds (UoP)	XX
2) Project Evaluation & Selection	XX
3) Management of Proceeds	XX
4) Reporting	XX
Independent External Review Provider	
Second-party opinion	XX
Verification	XX
Certification	XX
Scoring/Rating	XX
Other	n.a.
1) Use of Proceeds (UoP)	
UoP as per Green Bond Principles (GBP)	
Renewable energy	XX
Energy efficiency	XX
Pollution prevention and control	XX

EU Taxonomy Analysis (add-on)

The EU taxonomy has become more widely used and referenced, and all the environmental objectives covered (in addition to the initial objectives of climate mitigation and climate adaptation), so we have developed a process to analyse alignment with the EU taxonomy for the various UoPs of financing instruments. We developed this with clear reference to the EU taxonomy documentation and integrated with the various "usability guides" made available.

As a consequence, based on the need and request of the entity, we are able to add a section of analysis dedicated to the EU taxonomy. For each UoP, we analyse and comment on the following four steps:

- Contribution to EU Environmental Objectives
- Substantial Contribution (Technical Screening Criteria)
- Do No Significant Harm
- Minimum Safeguard

As per the sample below, each of the above steps will be added based on preference from the entity mandating us and will show "Yes"/"No"/"Partial" /"n.a." as a clear statement, followed by dedicated and extensive commentary. Our EU taxonomy analysis shown below will be further refined in the next few months to reflect the recently released criteria for additional environmental objectives (sustainable use and protection of water and marine resources; transition to a circular economy; pollution prevention and control; and protection and restoration of biodiversity and ecosystems).

Alignment with EU Taxonomy

EU Environmental Objectives: climate change mitigation (EO1); climate change adaptation (EO2); sustainable use and protection of water and marine resources (EO3); transition to a circular economy, waste prevention and recycling (EO4); pollution prevention and control (EO5); protection of healthy ecosystems (EO6)

Use of Proceeds	UoP1					
Contribution to EU Environmental Objectives (EO)	EO1 Yes/No/n.a.	EO2 Yes/No/n.a.	EO3 Yes/No/n.a.	EO4 Yes/No/n.a.	EO5 Yes/No/n.a.	EO6 Yes/No/n.a.
Technical Screening Criteria (TSC)	Yes/No/Partial/n.a. [add commentary]					
Do No Significant Harm (DNSH)	Yes/No/Partial/n.a. [add commentary]					
Minimum Safeguard	Yes/No/Partial/n.a. [add commentary]					

SDGs Assessment

In our analysis, we include an assessment of the relevant SDGs and how proceeds contribute to their achievement. Alignment with the SDGs is shown in various parts of the report:

- In the first page as a summary (after the SPO major drivers).
- In each of the UoP(s) and KPI/SPT(s), respectively for green/social/sustainability and sustainability-linked instruments.
- Before the appendices, where we show the SDG(s) and the associated target(s).

Relevant UN Sustainable Development Goals

• **11.2:** By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.	
• 13.3: Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning	

Source: Sustainable Fitch, UN

Appendix 3a: GSS Instruments

Thresholds per UoP and Score

	Metric	Weight (rounded)	Thresholds 1	2	3	4	5
UoPs – Detailed analysis of each UoP							
1.1	UoP Environmental/ Social Impact	-	For environmental: UoP contributes meaningfully to environmental sustainability objectives and is aligned with relevant international taxonomies. For social: UoP contributes meaningfully to one or more of the socially focused SDGs and targets a vulnerable population.	For environmental: UoP contributes meaningfully to environmental sustainability objectives, but does not meet thresholds set in relevant international taxonomies. For social: UoP contributes to one or more SDG, though does not necessarily target a vulnerable population.	For environmental: UoP is neutral with respect to environmental sustainability objectives and does not significantly impede progress towards a low-carbon economy. For social: UoP is neutral from a social standpoint, and does not contribute positively or negatively to social objectives of the SDGs.	For environmental: UoP is not aligned with environmental sustainability objectives or does not meet relevant eligibility thresholds for alignment with international taxonomies. Additionally, the UoP has potential negative impacts on environmental sustainability objectives. For social: Activity with marginal or limited negative impact on social SDGs, or an activity with potentially severe negative impacts, where those impacts are effectively mitigated by the issuer.	For environmental: UoP is negative from an environmental sustainability perspective, or actively impedes progress towards a more sustainable economy. For social: Activity with significant or high negative impact on social SDGs that is unmitigated.
UoPs – Other Information on UoPs							
2.1a	Percentage of proceeds allocated to new projects (not applicable to sovereigns, sub-sovereigns, and issuers focused on long-term projects such as infrastructure)	40% (2.1a is alternative to 2.1b)	75% of proceeds or higher allocated to new projects, rather than refinancing existing projects.	Between 50% and 75% (exclusive) of proceeds allocated to new projects.	Between 25% and 50% (exclusive) of proceeds allocated to new projects.	Between 0% and 25% (exclusive) of proceeds allocated to new projects, or no information provided.	0% of proceeds allocated to new projects.
2.1b	Percentage of proceeds allocated to new projects (applicable to sovereigns, sub-sovereigns, and issuers focused on long-term projects such as infrastructure)	40% (2.1b is alternative to 2.1a)	25% or more of proceeds allocated to new projects, with the residual percentage of proceeds allocated to projects with enough remaining life to realise an environmental or social benefit.	Between 0% and 25% (exclusive) of proceeds allocated to new projects, with the remaining proceeds allocated to projects with enough remaining life to realise an environmental or social benefit.	No information provided on intended breakdown of new versus existing projects financed through the framework.		
2.2	Lookback period	40%	Up to 12 months.	From 12 (exclusive) to 36 months.	Greater than 36 months, or no information provided.		

	Metric	Weight (rounded)	Thresholds 1	2	3	4	5
2.3	Clear exclusions / bans on controversial projects	20%	The framework includes a clear (and comprehensive) description of the types of projects that the issuer will not finance with proceeds from the issuance. These exclusions can cover activities that pose heightened environmental and/or social risks.	Exclusions described in the framework are not perfectly defined and/or do not cover a comprehensive range of controversial activities. Or, exclusions are not necessary given the specific nature of the framework or the issuer's business model.	No exclusions or bans on controversial projects available where necessary.		
2.4	GSS-relevant structural features	(only when relevant)	Innovative structural features embedded in the instrument that are well-defined and meaningfully enhance the instrument's credentials.	Structural features that are not well-defined and have a negligible or neutral impact on the instrument's GSS credentials or impact.			
Project Evaluation and Selection							
3.1	Pre-defined selection process	50%	The process for evaluating and selecting projects as eligible for allocation of issuance proceeds is clear and well-defined.	The process for evaluating and selecting projects is not clear, and relevant information is not provided where necessary.			
3.2	Internal checks and balances established among relevant teams	25%	The process for evaluating and selecting projects is managed by a group that includes members of multiple teams throughout the organisation, including experts in sustainability topics.	The group that manages the process for project evaluation and selection is comprised of treasury/finance officials only, and not those with backgrounds in sustainability or operations.	No internal checks and balances across teams described.		
3.3	Internal Control Structure for Approvals	25%	The control structure in place for evaluating and selecting eligible projects includes multiple layers of approvals.	The internal control structure includes only one layer of approvals, without additional oversight.	No apparent internal control structure.		
Management of Proceeds							
4.1	Proceeds tracking method	33%	Issuance proceeds are managed in a separate bank account or special purpose vehicle, to ensure proceeds are not allocated to ineligible projects.	Proceeds are tracked and segregated "virtually", such as through earmarking.	No information provided on tracking or segregation of proceeds.		

	Metric	Weight (rounded)	Thresholds 1	2	3	4	5
4.2	Unallocated proceeds	33%	Unallocated proceeds from the issuance are temporarily invested in short-term assets that align with the eligibility criteria of the framework.	Unallocated proceeds are invested in accordance with the company's general treasury/ liquidity policies.	No information on unallocated proceeds is provided, or unallocated proceeds are invested in other projects that are not aligned with the framework.		
4.3	Allocation monitoring	33%	Proceeds are monitored on a regular basis, and there is a clearly outlined policy for removing projects that are no longer aligned with the framework.	Proceeds are monitored, but with no potential for removal of projects that are no longer eligible.	No policies outlined for the monitoring of allocated proceeds in the eligible asset pool.		
Reporting and Transparency							
5.1	Allocation reporting: commitment	17%	The entity's commitment to allocation reporting is fully developed and transparent.	The allocation reporting commitment is vague and does not provide reasonable assurance of comprehensive disclosure.			
5.2	Allocation reporting: frequency	8%	The issuer commits to providing allocation reports annually until the instrument matures, or until the proceeds are fully allocated, with a commitment to refresh the reporting in case of any material changes to the asset portfolio.	The issuer commits to providing allocation reports annually until all proceeds are allocated, with no commitment to refreshing the reporting in the case of material changes to projects in the asset portfolio.	The issuer commits to reporting on allocation of proceeds on a less than annual basis.	No commitment to allocation reporting made available.	
5.3	Allocation reporting: granularity	8%	Allocation reporting will be available at the project level for each GSS instrument issued.	Allocation reporting will be available at the UoP category level for each instrument issued, or at the project level for the entity's full portfolio of GSS issuances.	Allocation reporting will be available at the portfolio level for each instrument, or at the UoP category level for the company's full GSS portfolio.	Allocation reporting will be available at the portfolio level for the company.	
5.4	Allocation reporting: allocated versus unallocated proceeds	8%	Breakdown of allocated versus unallocated proceeds is available at the instrument level.	Breakdown of allocated versus unallocated proceeds is available at the company/portfolio level.	Breakdown of allocated versus unallocated proceeds is not available.		
5.5	Impact reporting: commitment	17%	Issuing entity has fully committed to providing accurate	Issuing entity has stated an intention to provide impact			

			and timely impact reports, and has included details about the metrics it will use to gauge impact.	reporting, but only limited details on methods and metrics are available.		
5.6	Quality of impact reporting metrics	8%	Impact metrics to be used in reporting are specifically measurable and refer to external standards.	Impact metrics are not specifically measurable, but the entity has provided generic impact metrics and/or case studies of projects in the portfolio.		
5.7	Quality of impact reporting: data methodology	8%	Impact metrics are based on externally verified standards or frameworks.	Impact metrics are based on internal numbers, but use a clear methodology.	No information provided on data methodology underlying impact metrics.	
5.8	Impact reporting: granularity	8%	Issuer commits to disclosing impact metrics at the project level for each individual instrument in the GSS portfolio.	Impact metrics disclosed at the UoP category level for individual instruments, or at the project level for the full GSS portfolio.	Impact metrics disclosed at the portfolio level for an individual instrument, or at the UoP category level for the full GSS portfolio.	Impact metrics disclosed at the portfolio level for the entity as a whole.
5.9	Quality of verification for allocation and/or impact reporting	8%	Allocation and impact reporting (on impact achieved) verified.	Only allocation reporting is verified.	No commitment to verification of allocation or impact reporting.	
5.10	Frequency of reporting verification	8%	Impact and allocation reporting are independently verified on an annual basis, or more frequently.	Impact and allocation reporting are independently verified on a less than annual basis.	No information provided on frequency of verification.	

Source: Sustainable Fitch

Note: Weights refer to the importance of each question to its respective subsection of the report. The weights of each subsection total 100%. Weights shown are subject to roundings.

Appendix 3b: KPI-Linked Instruments

	Metric	Weight (rounded)	Thresholds 1	2	3	4	5
KPI Selection							
1.1	Coverage perimeter	25%	The KPI(s) identified are covering the full perimeter of the whole entity.	The KPI(s) identified are covering a significant part of the perimeter of the whole entity.	The KPI(s) identified are covering a less significant part of the perimeter of the whole entity.		
1.2	Measure transparency	13%	The metric considered as KPI is a well-defined internal entity metric.	The metric is an external-related metric of the entity such as an ESG Rating/Score (or similar).			
1.3	Materiality	25%	The KPI(s) identified are the most relevant for the entity/sector of operations.	The KPI(s) identified are partially relevant for the entity/sector of operations.	The KPI(s) identified have low relevancy for the entity/sector of operations.		
1.4	Methodology	13%	Calculation are based on externally verified standards or frameworks.	Calculation metrics are based on internal numbers, but use a clear methodology.			
1.5	Historical disclosure	13%	The KPI(s) measured are available at least for the three years before the issue date.	The KPI(s) measured are available for less than the three years before the issue date.			
1.6	Technical verification	13%	The baseline number at issue date as well as the historical track record is verified.	Only the baseline number at issue date is verified.	Other scenarios.		
Performance Targets							
2.1	Target quality	29%	For environmental: the SPT(s) identified feature at least two of the following features: (i) SBTi aligned; (ii) part of a net-zero strategy; and (iii) a threshold in a science-based taxonomy. For social: the SPT(s) are able to capture performance on SDG(s) targetting specifically vulnerable population.	For environmental: the SPT(s) identified feature at least one of the following features: (i) SBTi aligned; (ii) part of a net-zero strategy; and (iii) a threshold in a science-based taxonomy. For social: the SPT(s) are able to capture performance on SDG(s) targetting general population.	For environmental: the SPT(s) identified are (i) material, specified, quantified and monitored; and (ii) part of a comprehensive (entity-wide) sustainability strategy. For social: the SPT(s) are able to capture performance on SDG(s) targetting general population but with some form of uncertainty or without clarity.	For environmental: the SPT(s) identified are either (i) material, specified, quantified and monitored; or (ii) part of a comprehensive (entity-wide) sustainability strategy. For social: There is uncertainty on the ability of the SPT(s) to capture any contribution to SDG(s).	
2.2	Time of target verification (observation date)	29%	The observation date is scheduled at least once during the 30%–70% (inclusive) of the life of the analysed instrument.	The observation date is scheduled outside the 30%–70% band of life of the analysed instrument.	The observation date is scheduled at or after maturity date OR at or after the call date (entity's option).		
2.3	Type of target	14%	The SPT(s) is set looking inward at the entity.	The SPT is set as parametered to peers/other entities or sector counterparties.			

	Metric	Weight (rounded)	Thresholds 1	2	3	4	5
2.4	Target ambition	29%	The SPT(s) identified are representing a significant improvement for KPI(s) either vis-a-vis peer selection or entity baseline or region/country).	The SPT(s) identified are representing a moderate improvement for KPI(s) (either vis-a-vis peers or entity baseline or region / country).	The SPT(s) identified are representing a minimal improvement for KPI(s) (either vis-a-vis peers or entity baseline or region / country).		
Framework/Instrument Features							
3.1	Impact on terms of framework / instrument	80%	The impact on terms is higher than market practice.	The impact on terms is in-line with market practice.	The impact on terms is lower than market practice OR the framework features only a step-down.		
3.2	Mechanics: static versus dynamic	20%	Presence of a fallback measure (should the SPT not be calculated) or indication on calculation of a pro-forma or adjustments are included.	None of the previous dynamic feature is available.			
Reporting							
4.1	Reporting frequency	100%	Commitment to generate and make available the reporting on KPI status with more than annual frequency.	Commitment to generate the reporting on KPI status with annual frequency.	Commitment to generate the reporting on KPI status annually but no commitment on making it available.		
Verification							
5.1	Verification / qualification (done and available)	33%	The verification is focused on environmental/social impact achieved (i.e. GHG emission reductions).	The verification is focused on financial metrics (i.e. invested amount in renewable energy projects).			
5.2	Frequency	67%	The entity commits to a more than annual verification and to make it available (even if on demand or via registration process).	The entity commits to an annual verification and to make it available (even if on demand or via registration process).	The entity commits to annual verification but not to make it available.		

Source: Sustainable Fitch

Note: Weights refer to the importance of each question to its respective subsection of the report. The weights of each subsection total 100%. Weights shown are subject to roundings.

Appendix 4: SPO Scale

SPOs are a way for issuers to obtain an independent external review on their green, social, sustainability and sustainability-linked instruments. As per the ICMA Guidelines for External Reviewers, an SPO entails an assessment of the alignment of the issuer's green, social, sustainability or sustainability-linked bond or loan issuance, framework or programme with the relevant principles. For these purposes, "alignment" should refer to all core components of the relevant principles.

Sustainable Fitch analysts vary the analysis based on the type of instruments, to consider whether there are defined UoPs or KPIs and SPTs. The analysis is done on a standalone basis, separate to any assessment of the entity.

Mapping the Grade to a More Granular Score

Scale	Description
Excellent	Sustainable finance framework and/or debt instrument structure is fully aligned to all relevant core international principles and guidelines. Practices inherent to the structure meet excellent levels of rigour and transparency in all respects and are well in excess of the standards commonly followed by the market.
Good	Sustainable finance framework and/or debt instrument structure is fully aligned to all relevant core international principles and guidelines. Practices inherent to the structure meet good levels of rigour and transparency; in some instances, they go beyond the standards commonly followed by the market.
Aligned	Sustainable finance framework and/or debt instrument structure is aligned to all relevant core international principles and guidelines. Practices inherent to the structure meet the minimum standards in terms of rigour and transparency commonly followed by the market.
Not Aligned	Sustainable finance framework and/or debt instrument structure is not aligned to relevant core international principles and guidelines. Practices inherent to the structure fall short of common market practice.

Note: In this context "aligned" means level of alignment with best practices and taxonomies of reference.
Source: Sustainable Fitch

Appendix 5: Definitions

Term	Definition
Debt types	
Green	Proceeds will be used for green projects and/or environmental-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Green Bond Principles or other principles, guidelines or taxonomies.
Social	Proceeds will be used for social projects and/or social-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Social Bond Principles or other principles, guidelines or taxonomies.
Sustainability	Proceeds will be used for a mix of green and social projects and/or environmental and social-related activities as identified in the instrument documents. The instrument may be aligned with ICMA Sustainability Bond Guidelines or other principles, guidelines, taxonomies.
Sustainability-linked	Financial and/or structural features are linked to the achievement of pre-defined sustainability objectives. Such features may be aligned with ICMA Sustainability-Linked Bond Principles or other principles, guidelines or taxonomies. The instrument is often referred to as an SLB (sustainability-linked bond) or SLL (sustainability-linked loan).
Conventional	Proceeds are not destined for any green, social or sustainability project or activity, and the financial or structural features are not linked to any sustainability objective.
Other	Any other type of financing instrument or a combination of the above instruments.
Standards	
ICMA	International Capital Market Association. In the SPO we refer to alignment with the ICMA Bond Principles: a series of principles and guidelines for green, social, sustainability and sustainability-linked bonds.
LMA, LSTA and APLMA	Loan Market Association (LMA), Loan Syndications and Trading Association (LSTA) and Asia Pacific Loan Market Association (APLMA). In the SPO we refer to alignment with Sustainable Finance Loan Principles: a series of principles and guidelines for green, social and sustainability-linked loans.
EU Green Bond Standard	A set of voluntary standards created by the EU to "enhance the effectiveness, transparency, accountability, comparability and credibility of the green bond market".

Source: Sustainable Fitch, ICMA, UN, EU Technical Expert Group