MEHTA & MEHTA
Corporate Legal Firm

<u>SEBI Circular - Framework for Environment, Social and Governance (ESG) Debt Securities (other than green debt securities) – June 5, 2025</u>

1. Introduction and Regulatory Basis

SEBI vide its circular dated June 5, 2025 has expanded the ESG financing framework to include social bonds, sustainability bonds, and sustainability-linked bonds, in addition to green bonds, under the term "Environment, Social and Governance ("ESG") Debt Securities". This framework is introduced under the Regulation 2(1)(oa) and Regulation 12A of the SEBI (NCS) Regulations, 2021. It is aimed at creating a uniform framework for ESG Debt Securities.

2. Applicability and Scope

The framework applies to all ESG debt securities labelled as social or sustainability or sustainability-linked bonds that are listed or proposed to be listed on a recognised stock exchange. These requirements are in addition to existing SEBI NCS and SEBI LODR compliance , thereby layering ESG-specific obligations over the standard disclosure and governance regime.

3. Alignment with Global Standards

ESG bonds can only be labelled as such if the funds raised are proposed to be utilised for financing or refinancing projects and/or assets aligned with any of the following recognized standards or fall under the definitions given in the following paras:

- International Capital Market Association (ICMA) Principles / Guidelines
- Climate Bonds Standard
- ASEAN Standards
- European Union Standards and
- Any framework or methodology specified by any financial sector regulator in India.

4. Classification and Definitions

SEBI defines each type of ESG bond distinctly:

- Social Bonds: Must fund projects with clear social impact like housing, food security, healthcare, education, employment generation, etc., particularly targeting underserved populations.
- Sustainability Bonds: Must finance/refinance a mix of green and social projects.
- Sustainability-Linked Bonds (SLBs): Do not finance specific projects but are linked to the issuer's sustainability performance indicators (KPIs) and targets (SPTs)—thus focusing on the issuer's overall ESG performance.

5. Issuer Discretion and Project Classification

The classification of a debt security as a green debt security, social bond or sustainability bond should be determined by the issuer based on its primary objectives for the underlying projects.

6. Disclosures and Certification – Social Bonds

Issuers of social bonds must make detailed initial disclosures in the offer document (as per Annexure-A Part I) and continuous disclosures in annual reports and financial results (as per Annexure-A Part II). They must also appoint an independent third-party certifier to validate compliance, review project alignment, and verify impact reporting (Annexure-A Part III).

7. Disclosures and Certification – Sustainability Bonds

Issuers of sustainability bonds must comply with disclosure norms applicable to both green bonds (as per Chapter IX of SEBI NCS Master Circular) and social bonds (Annexure-A). The requirement to appoint a third-party certifier is also mandatory.

8. Disclosures and Certification – Sustainability Linked Bonds

Issuers of sustainability-linked bonds must disclose KPIs and SPTs in their offer document (Annexure-B Part I) and track/report performance periodically (Annexure-B Part II). An independent reviewer/certifier must validate KPIs, methodologies, and outcomes (Annexure-B Part III), ensuring that claims of performance-linked structuring are verifiable.

9. Issuer Responsibilities

Issuers must maintain a structured decision-making framework to assess the eligibility of funded projects and ensure strict utilisation of proceeds only for disclosed social/sustainable objectives. Any deviation can affect credibility and lead to regulatory or investor action.

10. Mitigating "Purpose-Washing" Risks

SEBI has introduced robust safeguards to prevent misuse of ESG labelling, such as:

- Prohibiting misleading claims or use of labels.
- Mandating early redemption in case of ESG objective failure (with majority debenture holder approval).
- Disallowing use of funds for non-ESG-aligned projects.
- Enforcing quantification of negative externalities, discouraging cherry-picked data and false narratives.

11. SME Issuer Applicability

Small and Medium Enterprises (SMEs) eligible to list under SEBI ICDR norms can also issue ESG debt securities. However, they must comply with bi-annual continuous disclosure requirements under Annexure-A and B and Chapter IX of the NCS Master Circular.

12. Effective Date and Implementation

This framework shall come into force for issuances of ESG debt securities with effect from June 5, 2025.

Link: https://www.sebi.gov.in/legal/circulars/jun-2025/framework-for-environment-social-and-governance-esg-debt-securities-other-than-green-debt-securities-_94424.html