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What's Market: ESG Bonds

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A survey of green, sustainability and sustainability-linked bonds based on a review of 13 offerings completed by reporting issuers (public companies) in Canada between January 1, 2023 and December 31, 2023 and tracked in Practical Law Canada's What's Market database.

Background and Survey Overview

The term environmental, social and governance (ESG) bonds is an umbrella term that may be used to categorize certain debt securities that are intended to address ESG-related targets or other criteria.

In recent years, the issuance of ESG bonds by corporate issuers in Canada has grown in popularity as issuers have responded to increased global awareness of ESG issues and new sources of investment that are supportive of ESG initiatives.

ESG Bond Categories

The International Capital Market Association (ICMA) has developed the categories described below (which have been generally adopted in Canada as a matter of market practice) for purposes of labeling ESG bonds:

- Green, Social and Sustainability (GSS) Bonds.
- Sustainability-Linked Bonds.

GSS Bonds

GSS bonds are further categorized by the ICMA as follows:

- **Green bonds.** Green bonds are debt securities:
  - for which the net proceeds (or an equivalent amount) will be exclusively applied to finance (or refinance), in whole or in part, new and/or existing eligible green projects with clear environmental benefits; and
  - which are aligned with the voluntary process guidelines set out by the ICMA.
- **Social bonds.** Social bonds are debt securities:
  - for which the net proceeds (or an equivalent amount) will be exclusively applied to finance (or refinance), in whole or in part, new and/or existing eligible social projects that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes (especially but not exclusively for a target population(s)); and
  - which are aligned with the voluntary process guidelines set out by the ICMA.
- **Sustainability bonds.** Sustainability bonds are debt securities for which the net proceeds (or an equivalent amount) will be exclusively applied to finance (or refinance) a combination of both eligible green and eligible social projects and which are aligned with the voluntary process guidelines set out by the ICMA.

GSS bonds are sometimes referred to as "use of proceeds" bonds (on the basis that an amount equal to the net proceeds will be dedicated to financing eligible green and/or eligible social projects) and may be issued without modification to the covenants and other structural terms established by a corporate issuer under the terms of an existing investment-grade (or other) debt securities offering program.

As a legal matter, the use of proceeds will not constitute a covenant or other term of the debt securities (as set out in the applicable trust indenture) and the issuer's failure to comply will not constitute an event of default under the terms of the debt securities. Instead, the issuer will typically elect to comply with the voluntary process guidelines set out by the ICMA and make certain related disclosure to investors to ensure that market participants are able to ascertain and assess the relevant sustainability characteristics of the GSS bonds.

Sustainability-Linked Bonds

Sustainability-linked bonds are characterized by the ICMA as debt securities:

- For which the financial and/or structural characteristics of the bond (for example, the interest rate) can vary or otherwise impose consequences depending on whether the issuer achieves pre-defined ESG objectives within a pre-defined timeline.
- Which are aligned with the voluntary process guidelines set out by the ICMA that recommend structuring features, disclosure and reporting.

Unlike GSS bonds, the proceeds of sustainability-linked bonds may be used for general purposes.

Surveyed Offerings

This survey is based on a review of 13 ESG bond offerings completed by reporting issuers (public companies) in Canada between January 1, 2023 and December 31, 2023 and tracked in Practical Law Canada's What's Market database.

The 13 ESG bond offerings included in this survey comprise:

- Six offerings of green bonds (see Green Bonds).
- Four offerings of sustainability bonds (see Sustainability Bonds).
- Three offerings of sustainability-linked bonds (see Sustainability-Linked Bonds).

Survey Parameters

Our What's Market database and related surveys do not include offerings:

- In an aggregate principal amount that is less than $20 million.
- By banks or similar financial institutions.
- By subsidiaries of certain credit supporters.
- Of asset-backed securities and other derivatives.
- In which the trust indenture is not governed by Canadian laws.
- Where the trust indenture is not available on the System for Electronic Data Analysis and Retrieval + (SEDAR+) and we are otherwise unable to obtain the required information from other sources.

Green Bonds

The survey includes:

- Five offerings of investment-grade debt securities issued as green bonds:
  - Debt Securities Offering, Granite REIT Holdings Limited Partnership offering of 6.074% senior unsecured debentures, series 7, due 2029 ($400 million);
  - Debt Securities Offering, Hydro One Inc. offering of 4.85% unsecured medium term notes, series 58, due 2054 ($400 million);
  - Debt Securities Offering, Hydro One Inc. offering of 4.85% unsecured medium term notes, series 58, due 2054 (re-opening) ($100 million);
  - Debt Securities Offering, Hydro One Inc. offering of 5.54% unsecured medium term notes, series 57, due 2025 ($400 million); and
  - Debt Securities Offering, Hydro One Inc. offering of floating rate unsecured medium term notes, series 56, due 2026 ($425 million).
- A fixed-to-fixed rate offering of non-investment grade subordinated notes issued as green bonds (Debt Securities Offering, Northland Power Inc. offering of 9.25% fixed-to-fixed rate subordinated notes, series 2023-A, due 2083 ($500 million)).

Five of the offerings were completed as public offerings using the shelf offering procedures that are available under National Instrument 44-102 – Shelf Distributions (NI 44-102) and one of the offerings (the Northland Power deal) was completed as a private placement under the accredited investor exemption.

In each case, the green bonds were:

- Issued as "use of proceeds bonds" (and, in the case of the five investment-grade offerings, without modification to the covenants and other structural terms established by the issuer under the terms of its existing investment-grade debt securities offering program).
- Labeled as green bonds and issued in accordance with (or otherwise aligned with or based on) the voluntary process guidelines set out by the ICMA in the Green Bond Principles and adopted by the issuer under a green bond or similar financing framework (see Framework).

The voluntary process guidelines contained in the Green Bond Principles include:

- Core components with respect to the:
  - application of the net proceeds within eligible green project categories;
  - decision-making process to be used by the issuer in reviewing and selecting eligible investments;
  - management and tracking of proceeds allocated to eligible investments; and
  - subsequent reporting of information relating to the allocation and use of proceeds.
- Recommendations with respect to:
  - the adoption of a framework (available in a readily accessible format to investors) to explain the issuer's alignment with the ICMA's process guidelines; and
  - external assurances or other verification intended to confirm pre-issuance alignment with the core components and post-issuance management and use of proceeds.

Core Components

Use of Proceeds

The Green Bond Principles provide that the net proceeds of a green bond offering should be appropriately described in the relevant disclosure documentation and dedicated to financing eligible green projects that provide clear environmental benefits (which will be assessed and, where feasible, quantified by the issuer) within the following categories (which are listed in no particular order and are indicative in nature):

- Renewable energy (including production, transmission, appliances and products).
- Energy efficiency (such as in new and refurbished buildings, energy storage, district heating, smart grids, appliances and products).
- Pollution prevention and control (including reduction of air emissions, greenhouse gas control, soil remediation, waste prevention, waste reduction, waste recycling and energy/emission-efficient waste to energy).
- Environmentally sustainable management of living natural resources and land use (including environmentally sustainable agriculture; environmentally sustainable animal husbandry; climate smart inputs, such as biological crop protection or drip-irrigation; environmentally sustainable fishery and aquaculture; and environmentally sustainable forestry, including afforestation or reforestation and preservation of restoration of natural landscapes).
- Terrestrial and aquatic biodiversity conservation (including the protection of coastal, marine and watershed environments).
- Clean transportation (such as electric, hybrid, public, rail, non-motorized, multi-modal transportation, infrastructure for clean energy vehicles and reduction of harmful emissions).
- Sustainable water and wastewater management (including sustainable infrastructure for clean and/or drinking water, wastewater treatment, sustainable urban drainage systems and river training and other forms of flooding mitigation).
- Climate change adaption (including efforts to make infrastructure more resilient to impacts of climate change, as well as information support systems, such as climate observation and early warning systems).
- Circular economy adapted products, production technologies and processes (such as the design and introduction of reusable, recyclable and refurbished materials, components and products, circular tools and services) and/or certified eco-efficient products.
- Green buildings that meet regional, national, or internationally recognized standards or certifications for environmental performance.

The disclosure with respect to project categories and types of eligible investment will generally vary from issuer to issuer depending on the nature of its underlying business and other circumstances. The following (extracted from the disclosure made by Granite REIT Holdings) is representative of the type of disclosure that an issuer may make in this regard:

Use of Proceeds Eligibility Criteria

Without limitation, Eligible Green Projects to which the net proceeds of the Offering shall be allocated generally fall into the categories specified in the table below.

Eligible Green Project Category	Eligible Investments
Green Buildings	Investments related to the purchase, development, re-development or improvement of logistics, e-commerce, warehouse and industrial properties that have received or are expected to receive at least one of the following green building certifications (or other equivalent green certification): - LEED: Silver, Gold, Platinum - DGNB: Silver, Gold, Platinum - BREEAM: Very Good, Excellent, Outstanding - Green Globes: Two, Three, Four Buildings with LEED Silver, DGNB Silver or Two Green Globes certifications will also be confirmed to have been designed to achieve a 20 to 30% energy efficiency improvement.
Resource Efficiency & Management	Investments that improve energy or water efficiency greater than 15%, or make other environmentally beneficial improvements to properties or land including, but not limited to, investments in: - LED and other energy efficient lighting - Cool roof and other sustainability-oriented construction materials - Smart meters
	- Energy storage - Xeriscaping/drought-tolerant landscaping - Sustainable drainage systems - Water and energy-saving technologies and materials
Clean Transportation	Investments in infrastructure to accommodate electric vehicles or other clean transportation.
Renewable Energy	Investments aimed at providing renewable energy including, but not limited to, wind, solar or geothermal. Geothermal projects are expected to result in direct emissions <100 grams of CO_2/kWh.
Pollution Prevention & Control	Remediation of contaminated soil and other construction waste diversion.
Biodiversity & Conservation	Tree planting and ecological restoration to preserve biodiversity and native ecosystems.

(Granite REIT Holdings Limited Partnership, Prospectus Supplement (October 10, 2023), pages S-21 and S-22.)

The Green Bond Principles also note that there are several current international and national initiatives to produce taxonomies and nomenclatures (as well as to provide mapping between them to ensure comparability) that may provide further guidance to issuers as to what may be considered green and eligible by investors.

In the event that all or a proportion of the proceeds are or may be used for refinancing, the Green Bond Principles recommend that issuers provide an estimate of the share of financing versus refinancing and, where appropriate, also clarify which investments or project portfolios may be refinanced and, to the extent relevant, the expected look-back period for refinanced eligible green projects.

Project Evaluation and Selection

The Green Bond Principles provide that issuers should clearly communicate to investors:

- The environmental sustainability objectives of the eligible green projects.
- The process by which the issuer determines how the projects fit within the eligible green project categories.

- Complementary information on processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s).

The following (extracted from the disclosure made by Hydro One Inc. with respect to its Series 56 offering) is representative of the type of disclosure that an issuer may make with respect to project evaluation and selection:

Process for Project Selection and Evaluation

Hydro One has established a Sustainable Finance Working Group that is responsible for reviewing and recommending for approval by the Sustainability Committee investments that will qualify as Eligible Projects. The Sustainable Finance Working Group comprises selected members from the Treasury, Sustainability, Operations, and Environment departments, and may include personnel from other departments in the future. The Sustainable Finance Working Group will identify, review and select Eligible Projects that align with the Framework. The leadership-level Sustainability Committee provides strategic advice and perspectives on current, emerging, and key sustainability issues, including climate change.

Eligible Projects will be evaluated for alignment with the Framework, Hydro One's sustainability objectives, and internal policies and guidelines. During this process, projects will be reviewed for environmental and social risks in line with company-level environmental and social policies and procedures. Hydro One regularly analyzes the environmental and social impacts of its businesses and assesses how to mitigate impacts on communities in which Hydro One operates. Additionally, Hydro One conducts extensive due diligence when evaluating potential new opportunities and monitoring of its investment plan. The final allocation and determination of Eligible Projects will be reviewed and approved by the Chief Financial Officer of Hydro One.

(Hydro One Inc., Pricing Supplement No. 5 (September 18, 2023), page 9.)

Issuers are also encouraged to:

- Position the information communicated above within the issuer's overarching objectives, strategy, policy and/or processes relating to environmental sustainability.
- Provide information, if relevant, on the alignment of projects with official or market-based taxonomies, related eligibility criteria (including, if applicable, exclusion criteria) and also disclose any green standards or certifications referenced in the project selection.
- Have a process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s) (such mitigants may include clear and relevant trade-off analysis undertaken and monitoring required where the issuer assesses the potential risks to be meaningful).

Management of Proceeds

The Green Bond Principles provide that:

- The net proceeds of a green bond offering (or an equivalent amount) should be:
  - credited to a sub-account, moved to a sub-portfolio, or otherwise tracked by the issuer in an appropriate manner; and
  - attested to by the issuer in a formal internal process linked to the issuer's lending and investment operations for eligible green projects.
- So long as the green bonds are outstanding, the balance of the tracked net proceeds should be periodically adjusted to match allocations to eligible green projects made during that period.
- The issuer should make known to investors the intended types of temporary placement for the balance of unallocated net proceeds.

- The proceeds of green bonds may be managed per bond issuance (bond-by-bond approach) or an aggregated basis for multiple series or classes of green bonds (portfolio approach).

The following (extracted from the disclosure made by Hydro One Inc. with respect to its Series 58 offering) is representative of the type of disclosure that an issuer may make with respect to the management of the net proceeds of a green bond offering:

Management of Proceeds

An amount equal to the net proceeds from a Sustainable Financing Instrument issuance (including the issuance of the Notes) will be deposited to Hydro One's general account and will be earmarked for allocation to Eligible Projects in accordance with the Framework. All relevant information regarding the issuance of Sustainable Financing Instruments and the Eligible Projects financed by such Sustainable Financing Instruments will be maintained in a register (the "**Sustainable Financing Register**"). Hydro One will allocate an amount equal to these net proceeds to approved Eligible Projects listed in the Sustainable Financing Register.

Net proceeds may also be used for investments associated with Eligible Projects made by Hydro One during the 24 months preceding the issuance of a Sustainable Financing Instrument. Hydro One intends to allocate all net proceeds within 24 months of each issuance of a Sustainable Financing Instrument. Prior to allocation, the net proceeds from a Sustainable Financing Instrument issuance (including the issuance of the Notes) may be temporarily utilized, in part or in full, for repayment of indebtedness or investments in bank deposits or other cash equivalents, in each case in accordance with Hydro One's internal liquidity management policies.

(Hydro One Inc., Pricing Supplement No. 7 (November 27, 2023), page 6.)

The Green Bond Principles encourage a high level of transparency and recommend that an issuer's management of proceeds be supplemented by the use of an external auditor (or other third party) to verify the internal tracking method and the allocation of funds from the green bond proceeds.

Reporting

The Green Bond Principles provide that:

- Issuers should make and keep, readily available up-to-date information on the use of proceeds to be renewed annually until full allocation and on a timely basis in the case of material developments.
- The annual report should include a list of the projects to which the green bond proceeds have been allocated (as well as a brief description of the projects, the amount allocated and their expected impact).

In circumstances where confidentiality agreements, competitive considerations, or a large number of underlying projects limit the amount of information that can be made available, the Green Bond Principles recommend that information should be presented in generic terms or on an aggregated portfolio basis (for example, percentage allocated to certain project categories).

The Green Bond Principles also recommend the use of qualitative performance indicators and, where feasible, quantitative performance measures and disclosure of the key underlying methodology and/or assumptions used in the quantitative determination.

The following (extracted from disclosures made by Northland Power Inc.) is representative of the type of disclosure that an issuer may make with respect to reporting:

Reporting

On an annual basis, until fully allocated, Northland will publish Allocation Reporting and Impact Reporting on its Eligible Projects portfolio, as detailed below.

Allocation Reporting

Northland will provide information on the Eligible Projects portfolio on its website (northlandpower.com). The information will contain, at minimum, the following details:

1. A statement of alignment with the relevant standards;
2. A list of Eligible Projects;
3. The amount of proceeds allocated by project category, including a breakdown of Eligible Projects by the nature of what is being financed or supported (equity investments, development expenditures, capital expenditures, refinancing of existing debt, letters of credit issued, etc.);
4. The breakdown of Eligible Projects by jurisdiction; and
5. The balance of unallocated proceeds

Impact Reporting

Northland will provide annual Impact Reporting for each project category with quantitative and/or qualitative impact reporting metrics, as recommended under the Harmonized Framework for Impact Reporting, which may include the following details:

1. A description of the Eligible Projects;
2. The EU Taxonomy Environmental Objective pursued by the Eligible Projects (i.e. Climate Mitigation);
3. Information on the methodology and assumptions used to evaluate the impacts and impact metrics;
4. Information on the metrics of the impact, as applicable:
   - Installed net renewable energy capacity (MW)
   - Renewable energy production (MWh)
   - Expected greenhouse gas emissions reduced and/or avoided (tonnes of CO2 emissions); and
   - Expected energy efficiency savings (kWh)

(Northland Power Inc., Company website (Investor Centre / Sustainability), Green Financing Framework (August, 2023), pages 8.)

Key Recommendations

Framework

The Green Bond Principles recommend that:

- Issuers should adopt a framework to explain (or otherwise describe in their legal documentation) the issuer's alignment with the core components of the Green Bond Principles.
- Issuers should:
  - summarize relevant information within the context of the issuer's overarching sustainability strategy, which may include reference to the five high-level environmental objectives of the Green Bond Principles (climate change mitigation, climate change adaptation, natural resource conservation, biodiversity conservation and pollution prevention and control); and
  - disclose any taxonomies, green standards, or certifications referenced in project selection.
- The framework (and/or the legal documentation) should be available in a readily accessible format to investors.

In connection with each of the surveyed offerings, the issuer adopted a framework based on the four components of the Green Bond Principles (in each case, a copy of the framework was made available on the issuer's website and summarized, as applicable, in the relevant prospectus relating to the offerings).

In many cases, the frameworks adopted in connection with the surveyed offerings also included and otherwise contemplated green loans aligned with the Green Loan Principles (for more information, see Practice Note, Green Loans).

External Reviews

The Green Bond Principles recommend that:

- Issuers appoint (an) external review provider(s) to assess through a pre-issuance external review the alignment of their green bond (or green bond program) and/or framework with the core components of the Green Bond Principles.
- An issuer's management of proceeds be supplemented (post-issuance) by the use of an external auditor or other third party to verify the internal tracking and the allocation of funds from the green bond proceeds to eligible green projects.

There are a variety of ways for issuers to obtain these assurances, which may include:

- **Second-party opinion.** An institution with environmental expertise that is independent from the issuer may provide a second-party opinion.
- **Verification.** An issuer may obtain independent verification against a designated set of criteria.
- **Certification.** An issuer may have its green bond framework or its use of proceeds certified against a recognized external green standard or label that defines specific criteria and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- **Rating.** An issuer may have its green bond framework or its use of proceeds evaluated or assessed by third parties (such as specialized research providers or rating agencies) according to an established scoring/rating methodology.

Sustainability Bonds

The survey includes four offerings of investment-grade debt securities issued as sustainability bonds:

- Debt Securities Offering, Hydro One Inc. offering of 3.93 % unsecured medium term notes, series 53, due 2029 ($300 million).
- Debt Securities Offering, Hydro One Inc. offering of 4.16% unsecured medium term notes, series 54, due 2033 ($450 million).
- Debt Securities Offering, Hydro One Inc. offering of 4.46% unsecured medium term notes, series 55, due 2053 ($300 million).
- Debt Securities Offering, Sun Life Financial Inc. offering of unsecured subordinated 5.50% fixed/floating debentures, Series 2023-1, due 2035 ($500 million).

Each of the offerings were completed as public offerings using the shelf procedures available under NI 44-102 and the debt securities were issued as "use of proceeds bonds" (and without modification to the covenants and other structural terms established by the issuer under the terms of its existing investment-grade debt securities offering program).

Sustainability bonds are debt securities:

- For which the net proceeds will be dedicated to financing a combination of:
  - green projects (see Use of Proceeds); and/or
  - social projects that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes (especially but not exclusively) for (a) target population(s)).
- Which are aligned with the voluntary process guidelines set out by the ICMA and contained in the:
  - Green Bond Principles;
  - Social Bond Principles; and
  - Sustainability Bond Guidelines.

The process guidelines contained in the Social Bond Principles and the Sustainability Bond Guidelines are substantially the same as the core components and key recommendations contained in the Green Bond Principles, subject to a broader application to include eligible social projects included by the issuer in relation to the sustainability bonds.

Social project categories include, but are not limited to, providing and/or promoting:

- Affordable basic infrastructure (for example, clean drinking water, sewers, sanitation, transport and energy).
- Access to essential services (for example, health education and vocational training, healthcare, financing and financial services.
- Affordable housing.
- Employment generation and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crises.

- Food security and sustainable food systems (for example, physical, social and economic access to safe, nutritious and sufficient food that meets dietary needs and requirements, resilient agricultural practices, reduction of food loss and waste and improved productivity of small-scale producers).
- Socioeconomic advancement and empowerment (for example, equitable access to and control over assets, services, resources and opportunities and equitable participation and integration into the market and society, including reduction of income inequality).

Examples of target populations include (but are not limited to) those that are:

- Living below the poverty line.
- Excluded and/or marginalized populations and/or communities.
- People with disabilities.
- Migrants and/or displaced persons.
- Undereducated.
- Underserved (owing to a lack of quality access to essential goods and services).
- Unemployed.
- Women and/or sexual and gender minorities.
- Aging populations and vulnerable youth.
- Other vulnerable groups (including as a result of natural disasters).

The definition of target population can vary depending on local contexts and, in some cases, such target population(s) may also be served by addressing the general public.

In connection with the surveyed offerings, the issuer (and, in the case of Hydro One Inc., its parent, Hydro One Limited) adopted a framework based on the core components and key recommendations contained in the Green Bond Principles, the Social Bond Principles and the Sustainability Bond Guidelines (a copy of the framework was made available on the issuer's website and summarized, as applicable, in the relevant prospectus relating to the offering).

Sustainability-Linked Bonds

Sustainability-linked bonds are characterized by the ICMA as any type of bond instrument:

- For which the financial and/or structural characteristics of the bond can vary or otherwise impose consequences depending on whether the issuer achieves pre-defined ESG objectives measured through pre-defined key performance indicators (KPIs) and assessed against agreed sustainability performance targets (SPTs) within a pre-defined timeline.
- Which is aligned with the voluntary process guidelines set out by the ICMA in the Sustainability-Linked Bond Principles.

The survey includes three offerings of investment-grade debt securities issued as sustainability-linked bonds:

- Debt Securities Offering, Enbridge Inc. offering of 5.36% unsecured sustainability-linked medium term notes, due 2033 ($400 million).
- Debt Securities Offering, TELUS Corporation offering of 4.95% sustainability-linked notes, series CAJ, due 2033 ($500 million).
- Debt Securities Offering, TELUS Corporation offering of 5.75% sustainability-linked notes, series CAK, due 2033 ($850 million).

Each of the offerings were completed as public offerings using the shelf procedures available under NI 44-102 and, in each case:

- The terms of the bonds contemplated an increase in the interest rate if the issuer failed to achieve targets relating to the reduction of greenhouse gas emissions.
- The redemption provisions used to calculate the amount payable on account of interest in connection with an early redemption under the terms of the bonds was subject to adjustment based on the underlying interest rate.
- The proceeds of the bonds were available to the issuer for the repayment of outstanding indebtedness and other general corporate purposes.
- The bonds were labeled as sustainability-linked bonds and issued in accordance with (and otherwise aligned with or based on) the voluntary process guidelines set out by the ICMA in the Sustainability-Linked Bond Principles and adopted by the issuer under a sustainable-linked bond or similar framework.

The voluntary process guidelines contained in the Sustainability-Linked Bond Principles include core components with respect to:

- Selection of KPIs.
- Calibration of SPTs.
- Bond characteristics.
- Reporting.
- Verification.

Core Components

Selection of KPIs

The Sustainability-Linked Bond Principles recommend that:

- KPIs should be material to the issuer's core sustainability and business strategy, address relevant environmental, social and/or governance challenges of the industry sector and be under management's control.
- KPIs should be:
  - relevant, core and material to the issuer's overall business and of high strategic significance to the issuer's current and/or future operations;
  - measurable or quantifiable on a consistent methodological basis;
  - externally verifiable; and
  - able to be benchmarked (that is, as much as possible using an external reference or definitions to facilitate the assessment of the SPTs level of ambition).
- Issuers communicate clearly to investors the rationale and process according to which the KPIs have been selected and how the KPIs fit into their sustainability strategy.
- A clear definition of the KPIs should be provided and include the applicable scope or perimeter, as well as the calculation methodology.

Issuers are also encouraged, when possible, to select KPIs that they have already included in their previous annual reports, sustainability reports, or other non-financial reporting disclosures to allow investors to evaluate historical performance of the KPIs selected. In situations where the KPIs have not been disclosed, issuers should, to the extent possible, provide historical externally verified KPI values covering at least the previous three years.

Calibration of SPTs

The Sustainability-Linked Bond Principles provide that:

- The SPTs must be set in good faith and the issuer should disclose strategic information that may decisively impact the achievement of the SPTs.
- The SPTs should be ambitious and:
  - represent a material improvement in the respective KPIs and be beyond a "business as usual" trajectory;
  - where possible, be compared to a benchmark or an external reference;
  - be consistent with the issuer's overall strategic sustainability/ESG strategy; and
  - be determined on a pre-defined timeline set before (or concurrently) with the issuance of the sustainability-linked bonds.
- The target-setting exercise should be based on a combination of benchmarking approaches as follows:
  - the issuer's own performance over time for which a minimum of three years, where feasible, of measurement track record on the selected KPIs is recommended and when possible forward-looking guidance on the KPIs;
  - the issuer's peers (that is, the SPTs relative positioning versus its peers), where available (average performance, best-in-class performance) and comparable, or versus current industry or sector standards; and
  - reference to the science (that is, systematic reference to science-based scenarios or absolute levels, such as carbon budgets), or to official country/international targets, or to recognized best-available-technologies or other proxies to determine relevant targets across environmental and social themes.
- Disclosures on target setting should make clear reference to:
  - the timelines for the target achievement (including the target observation date(s)/period(s), the trigger events and the frequency of SPTs);
  - where relevant, the verified 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/period);
  - where relevant, in what situations recalculations or pro-forma adjustments of baselines will take place;
  - where possible and taking competition and confidentiality considerations into account, how the issuer intends to reach such SPTs; and
  - any other key factors beyond the issuer's direct control that may affect the achievement of the SPTs.

  Issuers are encouraged to position this information within the context of the issuer's overarching objectives, strategy, policy and/or processes relating to ESG.

Bond Characteristics

The Sustainability-Linked Bond Principles provide that:

- The cornerstone of a sustainability-linked bond financial is that the bond's financial and/or structural characteristics can vary or otherwise impose consequences depending on whether the selected KPIs reach (or not) the pre-determined SPTs.

- The sustainability-linked bond will need to include a financial and/or structural impact involving trigger event(s).

The potential variation of the interest rate is the most common example (each of the surveyed offerings contemplated interest rate variations); however, it is also possible to consider the variation of other financial and/or structural characteristics.

The following extract summarizes the interest-rate step up contemplated under the terms of the Enbridge offering:

From and including November 26, 2031 (the "**Step Up Date**"), the interest rate payable on the Sustainability-Linked Medium Term Notes (the "**Notes**") offered hereby shall be increased by 50 basis points to 5.86% per annum (the "**Step Up Interest Rate**"), unless Enbridge Inc. (the "**Corporation**") has notified the Trustee in writing on or before the date that is 15 days prior to November 26, 2031 (the "**Notification Due Date**") in the form of an Officers' Certificate (the "**Satisfaction Notification**") that the Corporation has determined that it has satisfied the GHG Intensity Performance Target and received a related limited assurance letter (the "**Assurance Letter**") from the External Verifier, in which case the interest rate from and including the Step Up Date shall remain at the Initial Sustainability-Linked Interest Rate.

The interest rate applicable to the Notes will only be adjusted on the Step Up Date based upon the satisfaction or non-satisfaction of the GHG Intensity Performance Target on or prior to the Notification Due Date. Any satisfaction of the GHG Intensity Performance Target subsequent to the Notification Due Date or cessation of satisfaction will not result in an adjustment to the interest rate payable on the Notes. The Trustee shall not be obliged to monitor, inquire or verify as to whether the GHG Intensity Performance Target has been satisfied.

With respect to the rate at which the Notes will bear interest, the Trustee will be fully protected in conclusively relying upon the Satisfaction Notification delivered to the Trustee by the Corporation on or prior to the Notification Due Date, which sets out, among other things, the interest rate for the Notes.

(Enbridge Inc., Pricing Supplement No. 1 (May 23, 2023), page 1.)

The Sustainability-Linked Bond Principles recommend that:

- The variation of the bond financial and/or structural characteristics should be commensurate and meaningful relative to the issuer's original bond financial characteristics.
- The KPI(s) definition and SPT(s) (including calculation methodologies) and the potential variation of the financial and/or structural characteristics of the sustainability-linked bond are a necessary element of the bond documentation.
- Any fallback mechanisms in case SPTs cannot be calculated or observed in a satisfactory manner should be explained.
- Issuers may consider including, where needed, language in the bond documentation to take into consideration potential exceptional events (such as significant change in perimeters through material merger and acquisition transactions) or extreme events (including drastic changes in the regulatory environment) that could substantially impact the calculation of KPIs, the restatement of SPTs and/or pro forma adjustment of baselines or KPI scope.

Reporting

The Sustainability-Linked Bond Principles recommend that:

- Issuers should publish and keep readily available and easily accessible:
  - up-to-date information on the performance of the selected KPIs (including baselines where relevant);
  - a verification assurance report relative to the SPT outlining the performance against the SPTs and the

related impact, and timing of such impact, on the bond's financial and/or structural characteristics; and

- any information enabling investors to monitor the level of ambition of the SPTs (for example, any update in the issuer's sustainability strategy or on related KPI/ESG governance and, more generally, any information relevant to the analysis of the KPIs and SPTs).

- This reporting should be published regularly (at least annually) and in any case, for any date/period relevant for assessing SPT performance leading to a potential adjustment of the bond's financial and/or structural characteristics.

The following extract summarizes the reporting contemplated in connection with the TELUS offering of Series CAJ notes:

(4) Reporting

TELUS will report annually on the performance of the selected KPI in its annual Sustainability Report, or other similar report(s) as the case may be, which will be made available on TELUS' website. Beginning in TELUS' 2021 Sustainability and ESG Report (reported in April 2022), information on the performance of the selected KPI will include: base year information and annual progress on absolute Scope 1 and 2 GHG emissions reductions, data and explanations concerning any adjustments to previously disclosed data and scope of reporting, a summary of the performance of the selected KPI against the Sustainability Performance Target including the limited assurance report, and any other relevant information which may enable monitoring of the progress of the selected KPI.

For purposes of the Sustainability Performance Target, certain potential events, such as acquisitions or divestitures, including events not within TELUS' control, such as changes in the regulatory environment, can substantially impact the calculation of the KPI, and may require the restatement of the Sustainability Performance Target and/or pro-forma adjustments of previously disclosed GHG data or KPI scope. Any such readjustment will be disclosed as part of TELUS' annual reporting on the KPI.

(TELUS Corporation, Prospectus Supplement (March 23, 2023), page S-17.)

Verification

The Sustainability-Linked Bond Principles recommend that:

- An issuer should seek independent and external verification (for example, limited or reasonable assurance) of its performance level against each SPT for each KPI by a qualified external reviewer with relevant expertise (such as an auditor or an environmental consultant) at least once a year and, in any case, for any date/period relevant for assessing the SPT performance leading to a potential adjustment of the bond's financial and/or structural characteristics, until after the last SPT trigger event of the bond has been reached.
- The verification of the performance against the SPTs should be made publicly available.

It is also recommended (but not as a necessary element of the Sustainability-Linked Bond Principles) that an issuer obtain a pre-issuance second-party opinion to confirm the alignment of the sustainability-linked bonds with the core components of the Sustainability-Linked Bond Principles.

The following extract summarizes the verification contemplated in connection with the TELUS Series CAK offering:

(5) Verification

Pre-Issuance

On June 11, 2021, TELUS obtained and made publicly available a Second Party Opinion (as extended, the "SPO") by a recognized ESG research and rating agency on the alignment of the Framework with the ICMA's Sustainability-Linked Bond Principles and an opinion on the sustainability benefit of the Sustainability Performance Target. On August 22, 2023, TELUS obtained an extension of the validity of the SPO from such recognized agency. The SPO is available on TELUS' website and the extension thereof will be available on TELUS' website.

Post-Issuance

Annually, and for the Target Observation Date, TELUS will seek an independent and external verification, in the form of a limited assurance report by an External Verifier. An "External Verifier" is any independent accounting or appraisal firm or other independent expert of internationally recognized standing appointed by TELUS, in each case with the expertise necessary (as determined by TELUS, acting reasonably) to perform the functions required to be performed by the External Verifier in order to determine if the Sustainability Performance Target has been met. TELUS will include the limited assurance report provided by the External Verifier in TELUS' annual Sustainability Report, or other similar report(s), as the case may be. This report will be available on TELUS' website.

For the avoidance of doubt, none of the Framework, the SPO, any annual Sustainability Report or other update on the KPI or any report issued by an External Verifier are, and none shall be deemed to be, incorporated by reference into or form a part of this prospectus supplement or the accompanying short form base shelf prospectus. TELUS makes no representation to any person, including any holder of the Series CAK Notes, that the Sustainability Performance Target will be achieved. It will not be a breach or event of default under the Canadian Indenture that will govern the Series CAK Notes if the Sustainability Performance Target is not met.

See "Risk Factors" elsewhere in this prospectus supplement for further information regarding risks associated with the Sustainability Performance Target and the Series CAK Notes.

(TELUS Corporation, Prospectus Supplement (September 5, 2023), page S-19.)

Additional ICMA Resources

The ICMA has published a number of additional resources intended to provide complementary guidance and otherwise assist issuers, including:

- Guidance Handbook.
- Harmonised Framework for Impact Reporting (Green Bonds).
- Guidelines for External Reviews.
- Climate Transition Finance Handbook.

What's Market

Our What's Market database and related surveys and market analysis provide additional resources with respect to debt securities offerings completed by reporting issuers in Canada.

What's Market includes:

- A continuously updated database of public filings and trust indentures, which allows subscribers to analyze and compare debt security terms and conditions across multiple deals and access relevant precedents through direct links to the underlying documents.
- Surveys and related market analysis.

To use What's Market to find ESG bond offerings and compare debt security terms and conditions with respect to debt securities offerings completed by reporting issuers in Canada, follow these steps:

- Go to the What's Market landing base and click on "Deal Summaries".
- Click on "Debt Securities" under "Capital Markets & Securities" or "Finance".
- Either:
  - select "ESG bonds" under the filter "Type of debt security" along the left margin of the page; or
  - type relevant search terms, such as "green", "sustainability" or "framework" in the search bar at the top of the page and click on the search button.
- Then either:
  - click on the deal summaries for each of the transactions that you wish to review in greater detail; or
  - select all or a sub-set of the transactions for further comparison by clicking on "Compare" and refine your search by selecting additional search criteria contained in the list of comparison terms.
- Review a side-by-side comparison of the selected transactions based on the selected search criteria.