

ICMA Publishes Social Bond Principles: International Capital Market Association

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The principles provide guidance to issuers on the process of issuing social bonds, including the types of projects that qualify as social projects and the level of disclosure that should be provided to investors; compliance with the principles is voluntary.

On June 14, the ***International Capital Market Association (ICMA)*** published its new Social Bond Principles (SBPs), together with a revised version of its Green Bond Principles and new guidelines for issuers of sustainability bonds (which are bonds that are aligned with both the Green Bond Principles and the SBPs). This publication is the result of a wide consultation of the members and observers of the Green Bond Principles, which is a community of more than 200 institutions representing both participants and stakeholders in the green bond market.

Social bonds are bonds issued to raise proceeds that are used exclusively to finance new and existing social projects. Social bonds are similar to green bonds and sustainability bonds in that they have a predetermined use of proceeds and voluntarily align with a common set of criteria. The purpose of the SBPs is to provide a standard approach in the market (which can be relied upon by issuers, underwriters, and investors) in order to facilitate social bond transactions. The SBPs replace the guidance on social bonds issued in June 2016.

The SBPs consist of the following four components:

- **Use of Proceeds.** The foundation of a social bond is the utilization of the proceeds to finance a social project. The SBPs broadly provide that “social projects are those that directly aim to help address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially, but not exclusively, for target population(s).” Examples given of qualifying social projects include, among others, providing basic infrastructure; access to healthcare, education, vocational training, financing, and financial services; affordable housing; employment generation; food security; and socioeconomic advancement and empowerment. Target populations include, among others, those persons that live below the poverty line, excluded or marginalized communities, vulnerable groups, disabled persons, migrants or displaced persons, and undereducated, underserved, or unemployed persons. The SBPs also include recommendations for how the use of proceeds should be described in bond documentation.

- **Process for Project Evaluation and Selection.** The SBPs encourage a high level of transparency in the process of evaluating and selecting projects, and provide guidelines for disclosing this process to investors. They also recommend that the project evaluation and selection process be supplemented by an external review, and set out recommendations for conducting this review.
- **Management of Proceeds.** The SBPs include recommendations for the method by which an issuer tracks the holding and allocation of the net proceeds of social bonds, in order achieve a high level of transparency. Using an external auditor or other third party is recommended in order to supplement the issuer's internal management of the proceeds.
- **Reporting.** The SBPs also recommend that in addition to keeping up-to-date information on the use of proceeds, issuers should also use qualitative and quantitative performance indicators to communicate the impact of projects to investors.

The publication of the SBPs is a significant step in the development of the social bond market. Should the principles gain acceptance in the market, issuers, underwriters, and investors will all benefit from the consistency and transparency that they provide for social bond transactions, which should result in growth of the social bond market going forward.

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National Law Review, Volume VII, Number 171

Source URL: <https://natlawreview.com/article/icma-publishes-social-bond-principles-international-capital-market-association>