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In September 2022, Nordea issued SEK2.8bn and NOK1.3bn under the framework, split across three-year and five-year maturities. In August 2023, a €1bn three-year bond was priced, tripling the total volume of SLLBs outstanding (Table 1 overleaf shows full details of all the bonds). The large euro-denominated deal in 2023 has drawn greater attention to the framework's structure.

- This is an innovative development for the sustainability-linked debt market, **offering sustainability-linked investment opportunities to Financial Institution Group (FIG) investors**, a group who traditionally have not been able to get such exposure.
- Eligibility of SLL must be verified by an external review, and **so this structure serves to increase scrutiny**. The SLL market is both more opaque than the bond market due to the private nature of transactions, and also has been subject to its own criticism of poor materiality and ambition,² so this review should give investors confidence.
- **However, the pricing seems not to have been that compelling for Nordea**. It is reported to have required an 8bp concession,³ and one month on, it is still trading in line with grey bonds, with green bonds significantly tighter (see Figure 1). For the product to grow, pricing benefits for issuers are needed to offset the ongoing management costs.

Figure 2: Z-spreads of Green bonds vs. maturity. The graph shows Z-spread (bp) on the y-axis (40 to 90) and years to maturity on the x-axis (0 to 10). Three series are plotted: Traditional (grey squares), Green (green squares), and SLLB (blue diamonds). A dotted line represents the SLLB trend. Annotations show Z-spreads for specific maturities: €3.625 26s, €4.375 26s, €0.5 28s, €1.125 27s, €4.125 28s, €2.5 29s, €0.5 31s, and €2.875 32s.

³ “Nordea sparks sustainability-linked financing debate with new bond”, GlobalCapital, 31 Aug 2023.

Summary of bonds issued under the framework

Five bonds in total have now been issued using this approach, which are detailed in Table 1.

Table 1. Nordea SLLB issuance details. Source, Bloomberg, accessed 28 Sep 2023.

ISIN	Coupon	Pricing Date	Maturity	Currency	Amount Outstanding (CCY mm)	Amount Outstanding (\$mm)
XS2532378721	3.780%	06-Sep-22	15-Sep-25	SEK	2,100	191
NO0012697814	5.850%	06-Sep-22	15-Sep-27	NOK	800	75
XS2532378051	FLOAT	06-Sep-22	15-Sep-25	SEK	700	64
NO0012697822	4.655%	06-Sep-22	15-Sep-27	NOK	500	47
XS2676816940	FLOAT	30-Aug-23	06-Sep-26	EUR	1,000	1,055

Analysis

The framework is public,¹ and has been externally reviewed.⁴ Both the framework and the review are clear that this structure is not claiming to be either a green bond or a Sustainability-Linked Bond (SLB) issuance platform. It is explicitly stated, that Use-of-Proceeds (UoP) controls and reporting do not look-through to end usage of the capital, with the ultimate borrower in the funded SLLs.

There are a few characteristics of the structure that are worth highlighting.

Eligibility of SLLs

Only eligible SLLs will be funded. Much of the criticism of the SLL market, and by extension the SLB market, was that there were limited checks on the details of the instruments, that would otherwise have meant that the Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs) met appropriate standards. In this framework, only certain SLL are eligible to be funded.

For an SLL to be eligible, it must meet three criteria. Firstly, it must be aligned with the Sustainability-Linked Loan Principles from the year of signing the facility. Secondly, it must make a positive contribution to Climate Change Mitigation.⁵ Thirdly, an external reviewer must assess the KPIs as “material” and the SPTs as “ambitious”.

The reviewer explains that both KPIs and SPTs are assessed on a four-point scale; “Robust/Good/Limited/Absence”.⁴ Examples are given, and we see that an SLL with a KPI of “Good”, and an SPT of “Limited” is still considered eligible.

The focus of SLL Funding Assets is existing drawn SLLs. If a facility is partially drawn, then that portion can be allocated to the SLLB asset portfolio. This effectively guarantees zero additionality for these bonds. However, we recognise that this refinancing arrangement may potentially represent a necessary first step to test the format, i.e. offering clarity around which assets are being funded for investors.

⁴ “[External Review](#)”, ISS Corporate Solutions, 17 Aug 2023.

⁵ We note, that while the structure is flexible to include more, the only impact objective currently included is Climate Change Mitigation.

Sustainability-linked as a general sustainable label

One challenge with the sustainability-linked debt market is that the label can contain assets with a broad array of sustainability performance. Investment classification is easier when labels can provide binary assessments. Unfortunately, being sustainability-linked is not sufficient for the debt to be funding positive progress; there needs to be quality checks both on the ambition level of the targets, and the materiality of the incentives.

If the presence of an external review on the underlying assets can provide sufficient comfort on the sustainability credentials of the SLLB, this could help scale the asset class.

Bond holding information is not transparent, but we do see the bond has been bought by Blackrock Sustainable Euro Short Duration Fund (Ticker BLSDBDE), and it was not previously a holder of Nordea debt. This is one small piece of evidence that could suggest that only this structure is considered suitable for investment by a sustainable bond firm. More examples of such investment would be very positive for investors' confidence in the notion that being labelled as "sustainability-linked" means that an issuance can be considered as a truly sustainable investment.

External reviewers in the spotlight

The role of ESG data and ratings providers continues to grow. Both the European Commission,⁶ and the FCA,⁷ recognise the importance of these organisations, and are consulting on Code of Conduct or Regulation.

The presence of an external review can only give investors comfort if they are confident in its independence and quality.

In terms of independence, there will always be a conflict when ratings are paid for by those who are being reviewed. In this situation, one potential issue is that the same reviewer, ISS Corporate Solutions, reviewed the framework and provided the individual reviews on the underlying SLLs, so are in effect reviewing their own work. We also note that ISS Corporate Solutions is the sole reviewer listed for SLL assets, whereas in credit, often more than one rating is sought.

In terms of quality, this is very hard to assess. We have been told that not all loans submitted for review were deemed eligible, although the information only gives details of loans that were considered of high enough quality.⁴ As mentioned earlier, for example Borrower 1 in sector Manufacturing, the SPT was assessed as limited (third on a four point scale), and yet this still was eligible, which suggests this score is interpreted as being ambitious.

We also observe on a first reading of this External Review, that it was littered with typos and grammatical errors. This does not impact the strength of the analysis, but it does give the impression of low importance, and suggest a low readership. We are pleased to see that most seem to have been corrected.

⁶ ["European Commission proposal on ESG rating activities"](#), Hogan Lovells, 21 Jun 2023.

⁷ ["Consultation for ESG data and ratings providers"](#), FCA, 5 Jul 2023.

Conclusions & Recommendations

We view the structure positively. Both, as a way of introducing more transparency and reviews into SLL structures, but also by bringing sustainability-linked investment to a broader audience of investors.

Having said that, there are potential areas of improvement, and we would make the following recommendations:

- Mandating facilities to be aligned only with the relevant principles at time of origination feels like a loophole. Loan facilities are often executed and left undrawn, with capital being borrowed potentially a significant time after the original terms were agreed. Ensuring facilities are regularly reviewed against new learnings and recommendations is important, both for this structure, but also for the SLL market.
- Limiting eligible assets to drawn facilities also seems strange. We understand that in the green bond market for example, allowing refinancing has given much needed flexibility for long-dated assets, and supports growth in the product. Here, by limiting to only drawn facilities, the structure removes any hope of additionality. It does however assuage concerns from investors that their capital won't be deployed. It also encourages Nordea to review its existing SLL book for quality. It seems a logical next step would be to include new best-practice aligned assets into the portfolios.
- This framework elevates sustainability external reviewers to a role similar to that provided by credit rating agencies. ESG rating providers, and by association second-party opinion providers, are under pressure to be regulated. We hope this would help reviews become consistent, standard, and give investors confidence in their independence. In the meantime, we think it would be valuable to allow the framework to be assessed by an independent party from the reviewer responsible for the asset selection. It could also be considered whether eligibility criteria should even be assessed by a 'split-rating' from two agencies.

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