

Sustainability Bond Rating

ISS STOXX's Sustainability Bond Rating is designed to enable institutional investors to support their investment strategies by assessing the Environmental, Social, and Governance performance of labelled Green, Social, Sustainability, and Sustainability-linked (GSSS, or labelled) bonds, or Transition bonds. In this context, environmental, social, and governance performance refers to the ability of a bond to mitigate negative or generate positive environmental and social impacts and contribute to the issuer's sustainability objectives.

The Sustainability Bond Rating assesses alignment with established international standards and guidelines on labelled bonds, such as those by the [International Capital Market Association \(ICMA\)](#), as well as alignment with the United Nations (UN) [Sustainable Development Goals \(SDGs\)](#). The Sustainability Bond Rating measures absolute performance using a 12-point grading scale from A+ (excellent performance) to D- (poor performance). Supplemental data such as alignment with the EU Taxonomy and the estimated greenhouse gas emissions intensity of financed projects can be leveraged to support tailored applications at the discretion of subscribing investors.

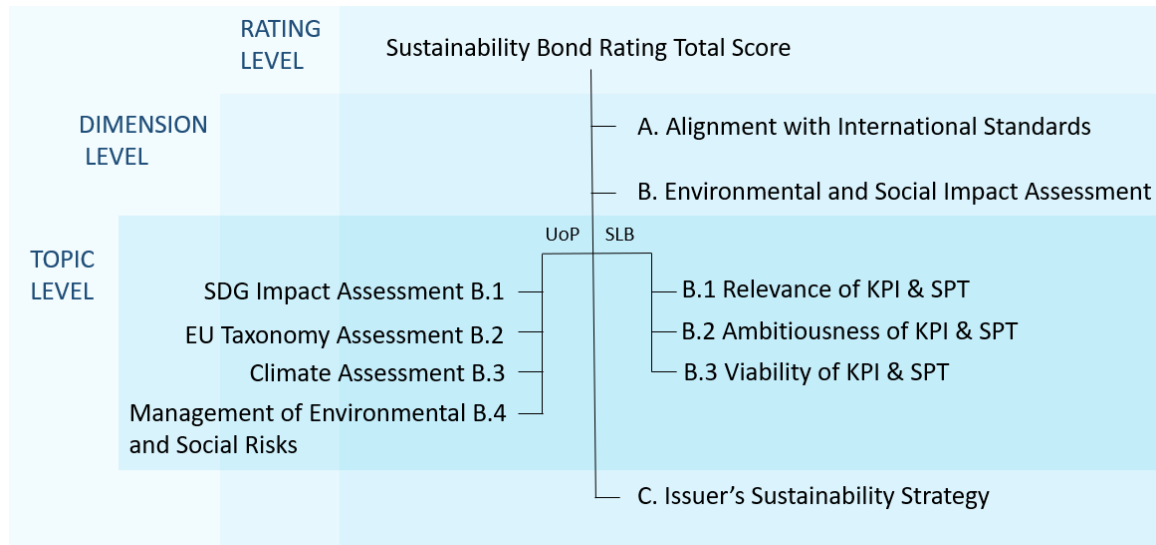
ISS STOXX recognizes the importance of conducting a sustainability assessment for GSSS bonds at the issuance level, as opposed to the issuer level. An issuance-level assessment for GSSS bonds allows investors to draw key insights on the material sustainability risks and opportunities of a labelled bond, rather than building an assessment on general elements from the issuer's activities and performance.

ISS STOXX's Sustainability Bond Rating is made up of three dimensions that are applied across issuance types – Use of Proceeds Bonds (UoP) and Sustainability-Linked Bonds (SLB):

1. Alignment with International Standards
2. Environmental and Social Impact Assessment
3. Issuer's Sustainability Strategy

Each dimension is subdivided into topics and further broken down into indicators (see Figure 1 below).

Figure 1. Top-level Hierarchy of the Sustainability Bond Rating



Note: UoP = Use of Proceeds; SLB = Sustainability-Linked Bonds; KPI = Key Performance Indicator; SPT = Sustainability Performance Targets.

Source: ISS STOXX

For all layers of the rating hierarchy – the overall rating, dimensions, and topics – there are aggregated scores based on the underlying indicator assessments. Drawing on a pool of approximately 400 indicators, an average of approximately 150 indicators per bond are evaluated based on the specific rating structures for each issuance type.

As shown in Figure 1, the topics within the Environmental and Social Impact Assessment differ for Use of Proceeds Bonds (left) and Sustainability-Linked Bonds (right), reflecting the fundamental difference in the use of proceeds (i.e., sustainability-related projects vs. unspecified proceeds allocation).

Outputs

ISS STOXX’s Sustainability Bond Rating presents the overall absolute rating grade as well as dimension-level signals and outputs. To provide full transparency on underlying assessments and aggregation of scores, ISS STOXX discloses the grade and weight of all topics which contribute to the overall grade.

The letter-rating scale ranges from D- to A+ and measures absolute performance. Underlying the letter grades is a numerical scale ranging from 1 to 4. Each letter grade spans an interval of 0.25 on the numerical scale (see Figure 2 below).

Figure 2. Letter Grade, Numerical Scale, and Classification of Letter Grades

D-	D	D+	C-	C	C+	B-	B	B+	A-	A	A+
1.00 - <1.25	1.25 - <1.50	1.50 - <1.75	1.75 - <2.00	2.00 - <2.25	2.25 - <2.50	2.50 - <2.75	2.75 - <3.00	3.00 - <3.25	3.25 - <3.50	3.50 - <3.75	3.75 - 4.00
Poor			Medium			Good			Excellent		

Source: ISS STOXX

Research Process

ISS STOXX's Sustainability Bond Rating process can be broken down as follows:

- **Data Collection:** Data collection and analysis is exclusively conducted in-house by trained and specialized analysts who adhere to comprehensive evaluation guidelines for each indicator.
- **Sources of Information:** ISS STOXX's Sustainability Bond Rating leverages qualitative and quantitative data sourced exclusively from publicly available information, including an issuer's own disclosures and reporting, and Second Party Opinion providers' databases.
- **Quality Assurance:** Assessments are systematically reviewed by senior analysts to maintain the high quality of data.
- **Data Updates:** As project disclosure post-issuance tends to be more granular than that disclosures in the pre-issuance stage, ratings are generally reviewed on an annual basis.
- **Final Report:** Data is provided via dedicated client feeds.

Use of Estimated Data

Estimations based on robust evidence may be made under the following conditions:

For quantitative indicators that are based on percentage assessments, estimations can be made if no (precise) reported data is available. Analysts are provided with clear guidance on how and in what instances estimations may be made.

For example, when assessing the allocation of proceeds of a UoP bond and in the absence of precise disclosure, proceeds are assumed to be equally distributed among all project categories disclosed in the Bond Framework. During the yearly update cycle, this allocation is re-assessed based on the latest available information within issuer disclosures.

In the absence of complete information from the issuer, estimations are avoided, however as disclosures on carbon emission intensity of financed projects are not generally available, estimations are made based on contextual information, such as project allocation or issuer industry. Such assessments do not carry a weight in the overall rating.

For example, if the issuer states that 100% of the bond proceeds have been allocated to renewable energy projects, carbon emissions will be estimated based on industry average emission intensity of such projects.

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ISS STOXX Sustainability enables investors to develop and integrate responsible investing policies and practices, engage on responsible investment issues, and monitor portfolio company practices through screening solutions. It also provides climate data, analytics, and advisory services to help financial market participants understand, measure, and act on climate-related risks across all asset classes. In addition, our Sustainability solutions cover corporate and country research and ratings enabling its clients to identify material social and environmental risks and opportunities. Sustainability solutions are provided by Institutional Shareholder Services Inc., an investment adviser registered under the U.S. Investment Advisers Act of 1940.

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