



# **Social Bond Second Party Opinion Scope's Guidelines**

ESG Analysis

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### 1. Introduction

Scope ESG Analysis GmbH provides second-party opinions (SPOs) assessing an issuer's social bond framework (Framework) in alignment with the Social Bond Principles (SBP) of the International Capital Markets Association. These guidelines describe our proprietary approach, which relies on a four-level 'human score' representing the degree of alignment with the SBP and a separate assessment of the expected impacts and ESG risks related to the investment of proceeds from the defined projects. The baseline for the assessment is the issuer's Framework, which is a prerequisite for the analysis.

The assessment includes seven distinct dimensions, with the first four covering alignment with the SBP:

1. SBP 1: Use of proceeds
2. SBP 2: Process for project evaluation and selection
3. SBP 3: Management of proceeds
4. SBP 4: Reporting
5. Issuer sustainability strategy
6. Impact of proceeds
7. ESG management risks

The four SBP dimensions are scored individually with six questions per dimension to ensure consistency and transparency in the analysis. The issuer is awarded points based on the outcome of each question: no (0 points), partial (1 point) or yes (2 points). Each SBP dimension receives an aggregate sub-score from 1 to 12 indicating poor, limited, good or excellent performance. To achieve alignment with the SBP, each dimension directly relating to the SBP must score a minimum of 7 (the provision of a Framework accounts for 1 point).

This methodology further includes four additional assessment categories beyond the ICMA criteria, including a concise description of the issuer's sustainability strategy and UN SDG alignment, and an assessment of the impact of proceeds from the defined projects. Finally, the SPO sheds light on potential ESG-related risks in the context of the eligible projects. These additional assessment categories extend beyond the obligatory assessment steps (dimensions five to seven). The three categories are scored individually with seven questions per dimension. Following the same calculation as the SBP categories, each dimension then receives an aggregate sub-score from 1 to 14 indicating poor, limited, good or excellent performance. Finally, the total aggregate score is a weighted average of six dimensions (impact of proceeds and ESG management risks are considered as one dimension in the total score calculation), where the SBP categories represent 25% of the total and the additional assessment categories account for 75%.

#### Area of application

This scorecard covers all debt instruments as defined by the International Capital Markets Association in its latest June 2022 Annex to the SBPs 2021.

We also provide SPOs under the Loan Market Association's Social Loan Principles by using these guidelines. As such, any Framework under which the issuer takes out loans is subject to these guidelines in accordance with the Social Loan Principles<sup>1</sup>. Any reference to the SBP in the following sections thus embraces the Social Loan Principles.

#### Geographic and sectoral scope

We provide SPOs across all jurisdictions and sectors globally under the International Capital Markets Association standards.

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<sup>1</sup> The [Social Loan Principles](#) build on and refer to the SBP in order to ensure consistency across financial markets.



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## Information sources

An SPO is based on the issuer's Framework and additional documentation provided by the issuer in writing, through calls or interviews, and publicly available information. The documentation may include relevant material as defined in the SBP and evidence of alignment of the eligible projects with the issuer's sustainability strategy.

The SPO is a point-in-time analysis with reference to an existing Framework. Any change to the Framework after the SPO's publication would require a new assessment.

## 2. Methodology

### 2.1 Overall human score

Our human score visually represents our evaluation and verification of the social impact of the issuer's Framework. The overall Framework score relies on seven sub-dimensions. Each dimension receives a sub-score, which is translated in four different performance levels: poor, limited, good and excellent. The overall Framework score is a weighted average of the performance of all dimensions and ranges from non-alignment with the SBP (one red human) to complete alignment with the SBP and transformative social contributions (three green humans). The ambitions within the defined social project categories qualify for the respective human scores. In the case of multiple project categories, the aggregated average assessment of alignment with the four-level criteria yields the overall score.

Human score	Performance score	Description
	<b>Excellent</b>	Transformative social contribution, full alignment with ICMA's SBPs and exemplary project alignment with the industry's key impact objectives
	<b>Good</b>	Significant social contribution, full alignment with ICMA's SBPs, and project alignment to industry impact objectives in line with market practice
	<b>Limited</b>	Alignment with ICMA's SBPs but insufficient and limited alignment to industry impact objectives compared with market practice
	<b>Poor</b>	No significant or negative social impact; no or only partial alignment with ICMA's SBPs and insufficient alignment to industry impact objectives

### 3. The SBP: assessment of issuance

#### 3.1 Use of proceeds

Use of proceeds is the category that assesses the use of bond/loan proceeds for eligible social projects. The eligible projects should provide clear social-linked benefits that are assessed and quantified by the issuer where feasible. The SBP lists distinct categories of eligibility for social projects that contribute to social objectives as defined by the SBP or for which the issuer justifies a meaningful contribution to one or more of the UN SDGs.

Human score	Description
	The eligible project descriptions are clear, very detailed and transparent. The stated use of proceeds definitions reaches beyond observed market practices in the industry. The issuer regularly publishes updated lists of social projects.
	The eligible projects are clear, detailed and comply with the SBP. The issuer publishes regular updates of the list of social projects.
	The eligible projects comply with the SBP. The issuer commits to non-regular updates of the project list.
	The issuer does not communicate the list of social projects, or the projects listed do not comply with the SBP.

### 3.2 Process for project evaluation and selection

Process for project evaluation and selection is the category that assesses the process defined in the issuer's Framework by which the issuer determines the steps to select projects that meet social project criteria and industry objectives as well as any additional information that can be used to identify and monitor controversies attached to eligible projects.

Human score	Description
	<p>The issuer has a precise project selection process and identifies material ESG objectives associated with the chosen projects. The issuer commits to monitoring the selected projects in case of any controversy and commits to performing necessary adjustments throughout the life of the social bond.</p>
	<p>The issuer has a well-defined project selection process and identifies material ESG objectives associated with the chosen projects.</p>
	<p>The issuer provides limited information on the project selection process and associated ESG risks.</p>
	<p>The issuer has not defined a process to select projects and has not identified associated ESG risks.</p>

### 3.3 Management of proceeds

Management of proceeds is the category that reviews the process defined in the Framework to track the net proceeds of the social debt instrument, as well as the unallocated proceeds. The SBP encourage a high level of transparency and traceability.

Human score	Description
	<p>The issuer has a well-designed and transparent process to track investments and has a process in place for unallocated net proceeds or proceeds from sudden divestment. Temporary investments finance ESG-linked products or at least prevent investment controversies.</p>
	<p>The issuer has a well-designed and transparent process to track the net proceeds. Liquid temporary investments are transparently disclosed.</p>
	<p>The issuer has a process to track the investments but lacks transparency to track the net proceeds.</p>
	<p>The issuer does not have a designed process to track investments.</p>

### 3.4 Reporting

The reporting category serves to analyse the issuer's reporting objectives to investors, such as the regular publication of updated information on the use of proceeds. This includes an assessment of the transparency of the qualitative and quantitative indicators, such as an improvement in educational or employment outcomes.

Human score	Description
	The reporting process is fully aligned with the SBP and provides additional information on the use of proceeds to produce social benefits at project level and/or regular impact reporting.
	The reporting process is fully aligned with the SBP.
	The reporting process is partially aligned with the SBP.
	The reporting process is not aligned with the SBP.

### 4. Scope ESG's impact and risk assessment

#### 4.1 Issuer's sustainability strategy

This category assesses the alignment of the Framework with the issuer's sustainability strategy and/or assesses the alignment with relevant and material impact objectives of the industry in the absence of a sustainability strategy<sup>2</sup>. This part of the assessment extends beyond the obligatory alignment check of a Framework with the SBP.

Human score	Description
	<p>The issuer has published quantitative and qualitative ESG targets and a sustainability strategy addressing relevant risks with ambitions beyond observed market practice in the industry. Environmental and social considerations are incorporated in all aspects of business decision-making. Business partners and suppliers are held to the same ESG standard, including an established and recurrent monitoring process.</p>
	<p>The issuer commits to a publicly available sustainability strategy, including transparent targets in line with the average industry standard. The issuer complies with relevant social certifications and standards. The issuer holds suppliers and business partners accountable to apply relevant ESG standards without recurrent monitoring.</p>
	<p>The Framework is aligned with the SBP. The issuer's commitment to a sustainability strategy is limited in terms of defined quantitative impact targets and publicly disclosed metrics.</p>
	<p>The issuer does not formally commit to a sustainability strategy</p>

<sup>2</sup> For public sector issuers, the sustainability strategy is assessed compared to the benchmark of other public issuers with similar characteristics (such as municipalities in the same or similar jurisdiction).

### 4.2 Impact of proceeds

Impact of proceeds is the category assessing the sustainability impact of the selected projects in the Framework, by reviewing the relevance of social objectives within respective project categories or SDG dimensions. This part of the assessment extends beyond the obligatory alignment check of a Framework with the SBP.

Human score	Description
	<p>The projects are highly relevant to the social objective within the sector of activity. The scope of the impact is significant and goes beyond current market practice. Best practices are adopted by the issuer in executing the activity.</p>
	<p>The projects are aligned with relevant market standards and contribute to the social-related objectives of the relevant sector. Best practices are adopted by the issuer in executing the activity.</p>
	<p>The projects are at least partially aligned with relevant market standards and provide a meaningful contribution to the social-related objectives of the relevant sector.</p>
	<p>The projects are not aligned with relevant market standards and unlikely to provide a meaningful contribution the social-related objectives of the sector.</p>

### 4.3 ESG management risks

ESG management risks is the category that assesses the risks associated with the eligible projects defined in the Framework, as well as the processes to mitigate and manage the risks. This part of the assessment extends beyond the obligatory alignment check of a Framework with the SBP.

Human score	Description
	<p>The issuer has a risk management strategy in place that addresses direct and indirect risks associated with every project category of the issuance. The issuer conducts a full risk assessment before engaging in a project and ensures that risks are minimised to the best of knowledge.</p>
	<p>Social and environmental risks are considered and standards are required from suppliers. Whether risks are mitigated throughout all activities in the supply chain is not guaranteed to be monitored.</p>
	<p>The issuer's risk management is limited in scope, considering risks partially, for example, disregarding substantial risks in the supply chain.</p>
	<p>The issuer does not take risks into account even though significant risks accompany the issuance activity.</p>



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