



## Guidance for COVID-19 Corporate Expenditures and Social/Sustainable Bonds

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In response to the current COVID-19 crisis facing the world, APG encourages corporate issuers to support their workers, customers, and the general public during this period (see [our call for companies to ease the impact of the COVID crisis](#)). Given the uncertainty created by this unprecedented pandemic, we would also like to provide some guidance around how APG thinks about and evaluates corporate pandemic response efforts in the context of social or sustainable bond issuance.

### Expanding Use of Proceeds

We recognize the urgency of the current situation and believe it is appropriate to expand the use-of-proceeds (UOP) definition to be more inclusive of COVID-19 related expenditures. We also believe this should be balanced with maintaining the integrity of the market. Therefore, APG has outlined a set of high-level guidelines (pg 2) and identified examples of corporate activities across various sectors that may potentially qualify as eligible UOP. We share these examples with market counterparts as part of our ongoing market outreach and engagement efforts.

However, there is not a guarantee that APG will consider all these examples as eligible UOP, nor should our list be construed as all-encompassing. We expect the market to remain nuanced and will continue to review potential deals on a case-by-case basis in the context of our risk-return objectives and underlying credit assessments.

Ongoing dialogue between market participants will be crucial as we work together to help the market evolve as a resource for responding to the pandemic.

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### *Required standards and reporting*

- Alignment with ICMA Social/Sustainable Bond Principles is required.
- Our existing standards and guidelines still hold – we consider the overall sustainability profile and trajectory of an issuer as part of our evaluation process.
- Second party opinions are preferred, but we understand issuers may be limited by time constraints under the current circumstances.
- Impact reporting remains a high priority but can be basic and straight-forward – transparency, accountability, and impact remove any doubt around UOP.

### *Redefined use of proceeds (UOP) must have strong social component*

- Linkage to social support is paramount – if the transmission mechanism is indirect, it should be explained in greater detail with transparency around potential impact metrics.
- In most cases the aggregate amount of these expenditures will not be enough for a benchmark-sized Social Bond, so we encourage combining COVID-related expenses with other green/social initiatives in a Sustainable Bond program.

### *Expanded eligible expenses within reason*

- Foregone revenue or income can be acceptable UOP but scale and impact matter. In theory, there is no difference between granting relief for rent, license fees, loans, cable bills, etc., but we hold issuers to a higher standard in terms of accountability and reporting to demonstrate targeted impact and ensure label is not being taken advantage of for better funding terms.
- For instances of rent/payment deferrals, we expect to understand the phase out period and how this policy might be reflected in long-term strategy of supporting customers.
- We will also evaluate relative to existing policies around treatment of customers experiencing economic hardship – should be incremental and targeted to those in need.
- Clear evidence of additionality vs regulatory or legal requirements is expected where appropriate.
- Relief programs should be well-structured – qualifying population should be clearly defined to ensure assistance is directed to those who need it, and program time horizon delineated, to the extent possible.
- Donations and charitable contributions, while admirable, shouldn't qualify as eligible expenses.
- Maintaining employee payrolls in their entirety while experiencing partial or full business closure can be an eligible UOP if this policy creates a clear funding need.

### *Additional considerations: timeframe & region*

- A lookback window can be used to allocate COVID-related UOP down the road – if funding urgency makes it difficult to meet standards COVID-related expenses can be applied as eligible UOP in future social/sustainable issuance, using a reasonable lookback horizon.
- Consider the impact timeframe relative to bond tenor (want to avoid a 30-year bond with only one to two years COVID-related impact reporting); Sustainable Bonds with a mix of UOP may allow greater flexibility in maturities.
- Regional norms and peer relative comparisons will be a consideration – differences in European and US corporate activity might arise due to inherent differences in expectations of social protection for employees and related legal requirements.