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Beyond. Research.

**Beyond labels: measuring, attributing,
and managing real world impact in
corporate bond portfolios**

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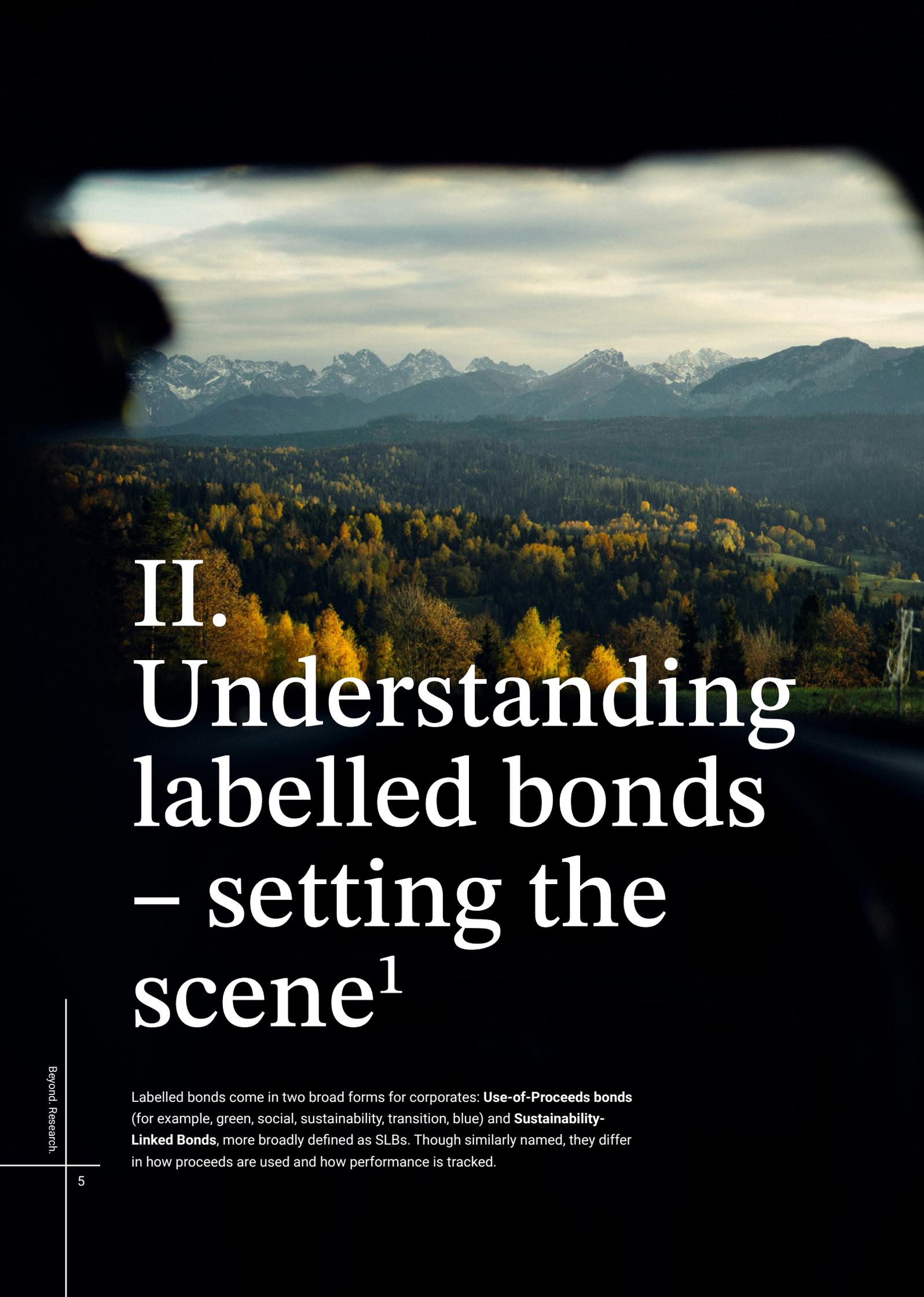
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I. Introduction

Corporate labelled bonds dominate sustainable finance, but **labels alone do not guarantee impact**. 'Beyond Labels' aims to equip investors to assess integrity and value by **clarifying what labelled bonds are, putting the spotlight on 2025 issuance trends and defining what 'good' looks like** according to evolving standards such as the EU Green Bond Standard. We **contrast Use-of-Proceeds and sustainability-linked structures**, exposing pitfalls like weak KPIs and symbolic penalties. More importantly, we introduce a **bottom-up framework to measure, attribute and manage real-world outcomes** at issuer level, critical for pricing impact integrity into credit decisions. Through **corporate case studies and engagement practices, we show how active oversight strengthens credibility and reporting**. This paper aims to equip professional investors to move beyond labels and verify actual outcomes in sustainable credit.



II. Understanding labelled bonds – setting the scene¹

Labelled bonds come in two broad forms for corporates: **Use-of-Proceeds bonds** (for example, green, social, sustainability, transition, blue) and **Sustainability-Linked Bonds**, more broadly defined as SLBs. Though similarly named, they differ in how proceeds are used and how performance is tracked.



The 'classic'

Use-of-Proceeds bonds (UoP)



Green bonds

Fund projects with environmental benefits (for example, renewable energy, energy efficiency, clean transportation, etc.), aligned with the voluntary International Capital Market Association (ICMA) Green Bond Principles (GBP). According to these Principles, issuers commit to four core components: use of proceeds, project evaluation and selection, management of proceeds and reporting. Since December 2024, the EU Green Bond Standard (EuGB) introduces a **voluntary, high-integrity label** anchored in the EU Taxonomy. EuGB alignment is emerging as the market's **'gold standard.'**²



Social bonds

Finance projects with positive social outcomes (for example, affordable housing, healthcare), following the ICMA's Social Bond Principles (SBP) with similar core components to the ICMA Green Bond Principles.



Sustainability bonds

Support both green and social projects, combining both GBP and SBP guidelines. These bonds allow issuers to combine environmental and social investments under one instrument (often referencing the UN Sustainable Development Goals (SDGs)).



'Innovative' Use-of-Proceeds bonds



Transition bonds

Target carbon-intensive sectors ('brown industries') (for example, oil and gas, steel, aviation) to **fund their shift toward low-carbon operations**. While lacking a universal standard, credible issuers follow the ICMA's Climate Transition Finance Handbook, which emphasises transparency, science-based targets and long-term strategy.



Blue bonds

Finance ocean and water-related projects (for example, marine conservation, clean water, plastic waste reduction). Blue bonds follow voluntary guidelines based on existing green finance standards such as **the ICMA's GBP (considered a sub-category of green bonds)**, the International Finance Corporation's (IFC) Guidelines for Blue Finance and the SDG framework (in particular SDGs 6 and 14). Projects involving deep-sea mining, offshore fossil fuel extraction or harmful practices (i.e., destruction of habitats) are typically excluded.



KPI/SPT-linked bonds



Sustainability-Linked Bonds (SLBs)

General-purpose bonds with no earmarked projects. Their financial terms (for example, coupon rate) adjust based on the issuer's performance against predefined Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs). The ICMA's SLB Principles outline five pillars: **KPI selection, SPT calibration, bond characteristics, reporting and verification.** In an SLB, the issuer pays a penalty (usually a step-up in coupon) if it fails to meet its SPTs by the target date.

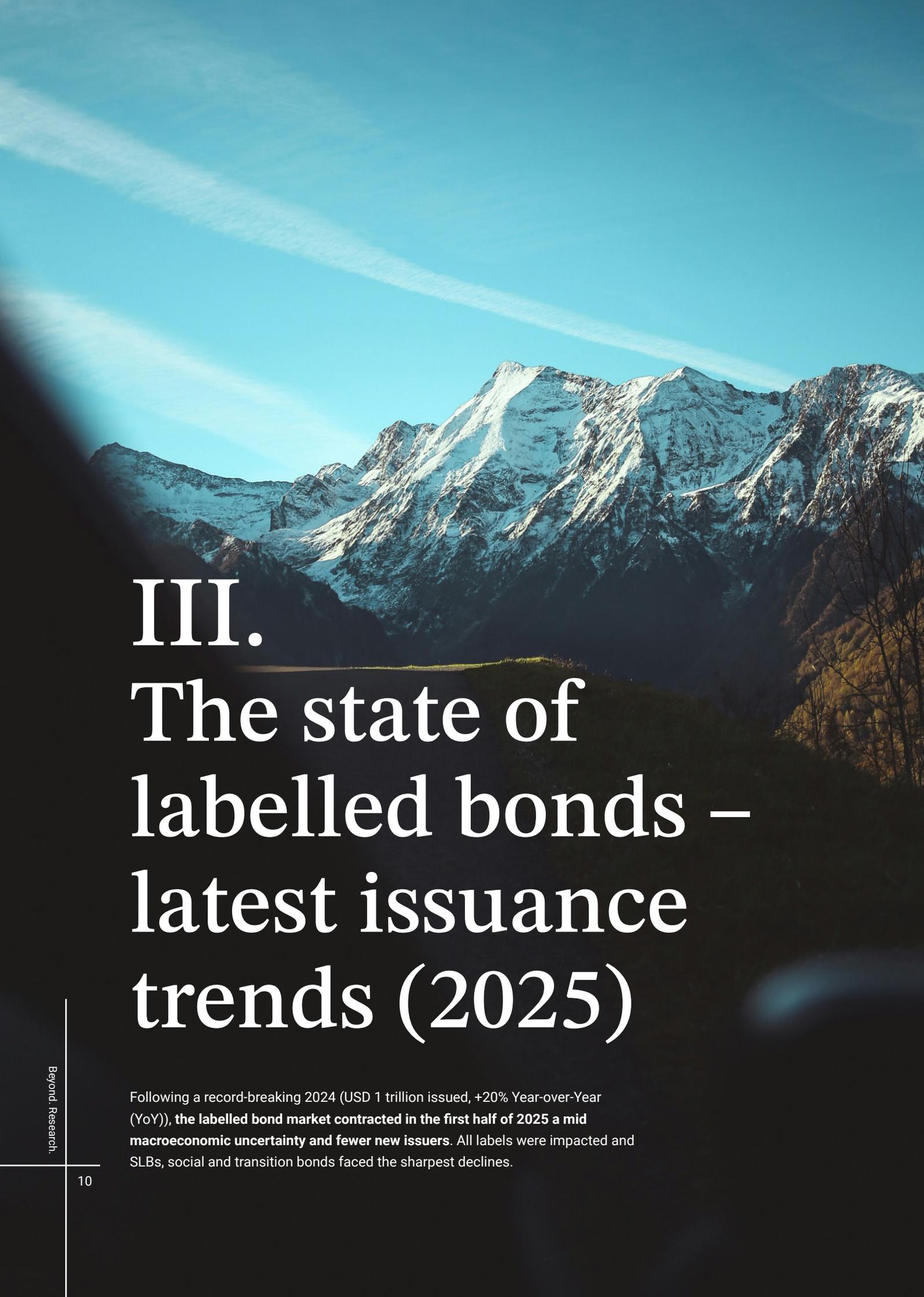
Summary

Compared to UoP bonds, **SLBs are harder to evaluate due to the lack of project-level transparency**. UoP bonds ensure traceable impact through project funding, while SLBs incentivise company-wide sustainability improvements by linking financing costs to performance.

Summary corporate bond types with key characteristics

Bond type	Structure	Primary objective	Typical corp. issuers / sectors	Core standards	Example uses / KPIs	Key risks
Green bonds	UoP (ring-fenced)	Finance environmental/climate projects (mitigation/adaptation) while keeping corporate balance sheet risk profile)	Utilities, Real Estate, Industrials	ICMA Green Bond Principles (GBP), ICMA Guidance Handbook; (in EU) optional EU Green Bond Standard (EuGB) from 21 Dec 2024	Renewables, energy efficiency, clean transport, green buildings	Greenwashing scrutiny; taxonomy alignment (EU); disclosure/reporting expectations; pricing 'greenium' may be modest and variable
Social bonds	UoP	Fund projects with measurable social benefits (e.g., affordable housing, access to basic services)	Financials, Real Estate, Healthcare	ICMA Social Bond Principles (SBP) via Guidance Handbook	Affordable housing, healthcare, education	Pipeline depth can be a constraint; impact measurement rigour expected
Sustainability bonds	UoP	Combine green and social in one issuance - useful for multi thematic corporate CapEx/OpEx programs	Diversified corporates	ICMA Sustainability Bond Guidelines (SBG) via Guidance Handbook	Climate adaptation + social inclusion programs	Same as green/social plus need for clear allocation split & impact reporting
SLBs	KPI/SPT-linked (no ring-fence)	Link coupon to issuer-level sustainability targets	Broad corporate use (especially when eligible UoP pool is limited)	ICMA SLB Principles (June 2024); KPI Registry; enhanced guidance on KPI selection and disclosure	KPIs: GHG intensity, renewable share; coupon step-ups	Ambition/materiality of KPIs and SPT calibration; risk of 'coupon only' structures; regulatory scrutiny rising
Transition bonds	UoP	Finance credible decarbonisation for hard-to-abate sectors	Industrials, Chemicals (carbon-intensive)	ICMA Climate Transition Finance Handbook (applies to UoP and SLB formats).	CCUS, electrification, low-carbon fuels	Label fragmentation and eligibility debates; need for science based pathways and CapEx plans
Blue bonds	UoP	Ocean and water related benefits (SDG 6 & 14): sustainable water, marine ecosystems, coastal resilience	Water utilities, Ports, Logistics	ICMA guidance for blue financing has emerged; issuers align with GBP, IFC Blue Guidance	Wastewater treatment, sustainable ports/fisheries	Still nascent; taxonomy/eligibility clarity and impact metrics evolving

Source: DPAM



III. The state of labelled bonds – latest issuance trends (2025)

Following a record-breaking 2024 (USD 1 trillion issued, +20% Year-over-Year (YoY)), **the labelled bond market contracted in the first half of 2025 amid macroeconomic uncertainty and fewer new issuers.** All labels were impacted and SLBs, social and transition bonds faced the sharpest declines.

Issuance trends (H1 2025)³

Global sustainable bond issuance fell 23% YoY to c. USD 443 billion, prompting Moody's to revise its full-year forecast to USD 900 billion from its USD 1 trillion original projection. Results from the first half of 2025 show:



H1 composition (USD 443B)

USD 260 billion green (59% of total issuance) | USD 99 billion sustainability (22%) | USD 66 billion social (15%) | USD 15 billion SLBs (3%) | USD 3 billion transition (1%).



Green bonds remain the dominant instrument

These accounted for 59% of issuance in the first half of 2025, despite a fifth consecutive quarterly decline (-24% YoY), supported by climate-focused financing, new nature-related frameworks and resilient investor demand.



Social bonds saw a sharp contraction

(-28% YoY, -51% Quarter on quarter (QoQ)), mainly due to reduced issuance from agencies, financial institutions and supranationals.



Sustainability bonds proved most resilient

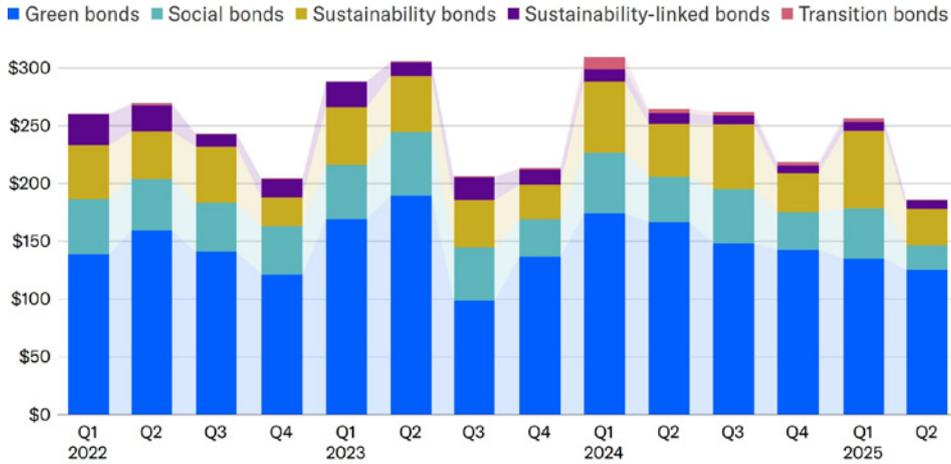
(-7% YoY), with supranationals accounting for 59% of issuance.



SLBs, transition and blue bonds remain marginal

SLBs fell 25% YoY to USD 15 billion while transition bonds saw the steepest decline (-77%) representing c. USD 3 billion. It should be noted that Q1 2024 was an exceptional period for transition bond issuance (> USD 11 billion issued versus USD 2 billion quarterly average since 2022).

Quarterly sustainable bond issuance, billions



Source: Moody's ratings

Data from the first half of 2025 confirms the overall dynamic observed in recent years in the labelled bond market. Relative to the 3-year quarterly average, issuance in the first half of 2025 declined 13%, mostly driven by SLBs (-49%), social (-25%), and transition bonds (-24%).



Green bonds saw a moderate decline (-13%), while sustainability bond issuance grew (+12%).

Sustainable bond issuance in 2025 versus 3y average, quarterly, in billions

Issuance in USD billions	Av. since 2022	Av. H1 2025	Diff.
Green bonds	149	130	-13%
Social bonds	44	33	-25%
Sustainability bonds	44	50	12%
SLBs	15	8	-49%
Transition bonds	2	2	-24%
Total	254	222	-13%

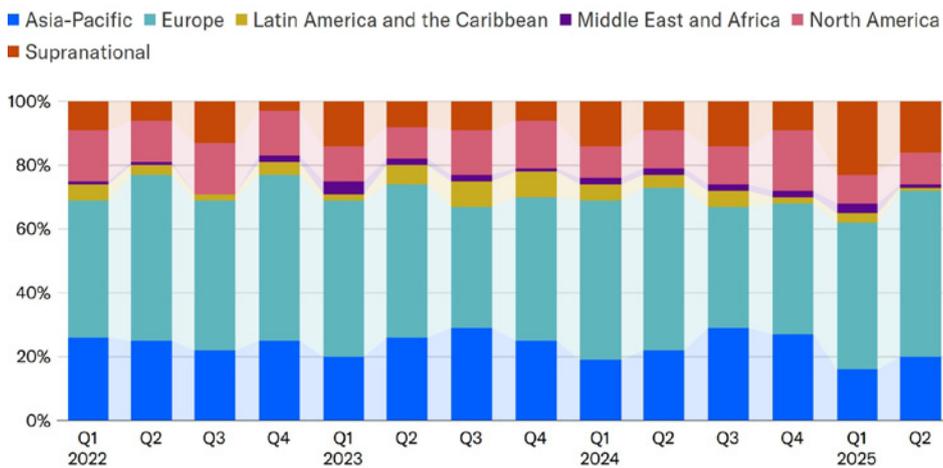
Source: DPAM, Moody's ratings

Regional dynamics⁴

Europe led global issuance in the first half of 2025 with USD 215 billion (49%), followed by the Asia Pacific (APAC) (18%) and North America (9.5%).

Latin America and the Caribbean and the Middle East and Africa each contributed 2%. Latin America saw a sharp drop in the second quarter to under USD 1 billion from USD 8 billion in the first quarter, though Brazil's COP30 presidency may catalyse a rebound in the second half of 2025. Supranationals accounted for 19.5% of issuance.

Regional quarterly sustainable bond issuance, billions across regions



Source: Moody's ratings

Regional dynamics observed in the first half of 2025 remain in line with the three year average. Europe remains the leader (46%), followed by APAC (25%), and North America (14%). In recent years, we highlight the growth of supranational issuance (+10 pp), the resilience of European issuance (+3pp) while other regions such as APAC (-7pp), Latin America (-2.5pp) and North America (-4pp) saw declines. Middle Eastern and African issuance has remained minor and stable.

Market share of sustainable bond issuance in 2025 versus 3y average, in %

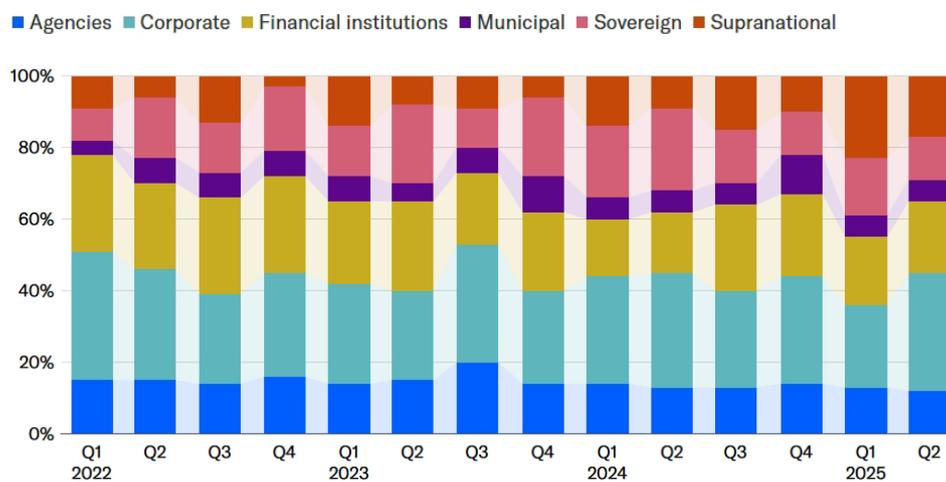
Market share (%)	Av. Since 2022 (%)	Av. H1 2025 (%)	Diff.
Asia pacific	24.6	18.0	-6.6
Europe	46.2	49.0	2.8
Latin America and the Carribean	4.5	2.0	-2.5
Middle East and Africa	1.8	2.0	0.3
North America	13.5	9.5	-4.0
Supranational	9.5	19.5	10.0

Source: DPAM, Moody's ratings

Sector dynamics

Issuer activity in the first half of 2025 was mixed⁵: Sovereigns (-8pp), corporates (-3pp), and agencies (-1pp) declined, while supranationals (+9pp) and financial institutions (+3pp) gained. Municipals remained stable.

Quarterly sectoral sustainable bond issuance, billions⁶



Source: Moody's ratings

Compared to the three-year average, only supranationals posted growth. Historically, corporates (30%), financial institutions (23%) and sovereigns (17%) have led issuance.

Issuer split comparisons, in %

Issuer split (%)	Av. Since 2022 (%)	Av. H1 2025 (%)	Diff.	Av. H1 2024	Diff H1 2024/2025
Agencies	14.8	12.5	-2.3	13.5	-1.0
Corporate	29.3	28.0	-1.3	31.0	-3.0
FI	22.9	19.5	-3.4	16.5	3.0
Municipal	6.9	6.0	-0.9	6.0	0.0
Sovereign	16.4	14.0	-2.4	21.5	-7.5
Supranational	9.7	20.0	10.3	11.5	8.5

Source: DPAM, Moody's ratings

Key sectors driving green issuance⁷:



Financials

Broad label participation (for example, Crédit Agricole, CaixaBank).



Utilities/energy

Grid upgrades and renewables (for example, Enel, Ørsted, A2A's EUR 500 million EuGB).



Transport and infrastructure

Low carbon-mobility (for example, Ile-de-France Mobilités EUR 1 billion EuGB).



Real Estate

Green buildings and retrofits (for example, Unibail-Rodamco-Westfield).

Q3 2025 update⁸

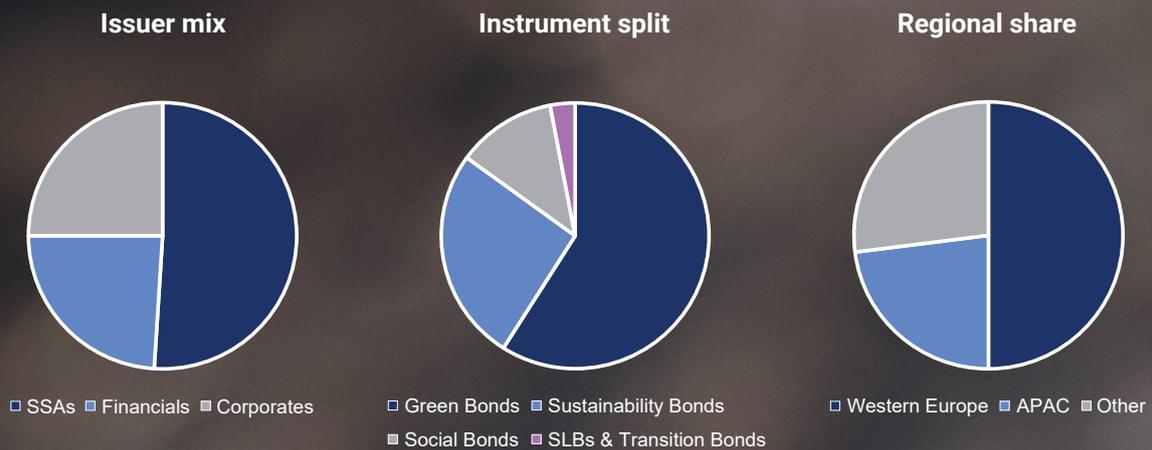
Latest Q3 2025 data confirms the market slowing down, as observed above. Issuance in the third quarter declined 9% YoY, representing 13% of total bond issuance. Market composition remains consistent:

Instrument
Green (59%), sustainability (26%), social (12%), SLBs and transition (<3%).

Regional share
Europe led with 50%, followed by APAC (23%).

Currency split
EUR (52%), USD (23%), others (25%).

Issuer mix
Sovereign, supranational, and agency (SSA) (51%), financials (25%), corporates (24%).



Source: CACIB, DPAM

Investor sentiment⁹

Investors remain selective. Green bonds are core holdings, while SLBs face credibility concerns due to weak KPIs. Key takeaways:



Market slowdown appears cyclical, not structural.



Green bonds remain resilient; social bonds, SLBs, and transition bonds face headwinds.



Europe leads: emerging markets may rebound after COP30.



ESG fund inflows indicate sustained investor interest.



IV. The rulebook: what defines 'good' in labelled bonds

In response to growth and scrutiny in the labelled bond market, standard-setters and regulators have issued clear guidance on what 'good' looks like for green, social and sustainability bonds and SLBs. Key components include:

Voluntary market standards¹⁰

The International Capital Market Association (ICMA) publishes the most widely adopted standards, The Principles, supported by a Guidance Handbook, KPI Registry and External Review Guidelines:



Green Bond Principles (GBP)

Aiming to finance projects with **clear environmental benefits** with four core components: 1) Use of proceeds; 2) Project evaluation and selection; 3) Management of proceeds and 4) Reporting.



Social Bond Principles (SBP)

Focus on projects with **positive social outcomes** (for example, affordable housing, healthcare).



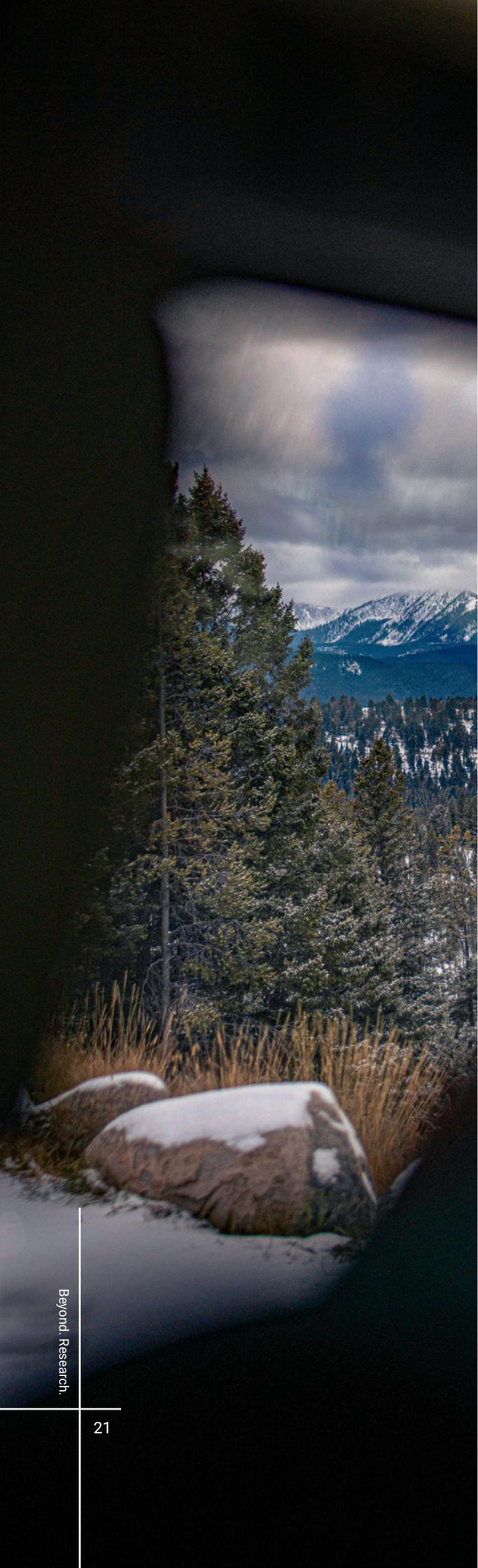
Sustainability Bond Guidelines (SBG)

For bonds financing a **mix of green and social projects**.



Sustainability-Linked Bond Principles (SLBP)

Performance-based instruments tied to **issuer-level sustainability KPIs**.



Certifications/ labelling schemes

In addition, to the ICMA standards, key certification and labelling schemes are also widely recognised across the market and help shape best practices:



Climate Bonds Standard (CBS)

Developed by the **Climate Bonds Initiative (CBI)**¹¹, this certification scheme aligns with the Paris Agreement and requires independent verification.



Enhanced Labelled Bond Standards (ELBS)¹²

These build on ICMA Principles with stricter requirements, including mandatory community engagement and limitations on refinancing.

Regulatory frameworks

The **EU Green Bond Standard (EuGB)**^{13,14} (Regulation 2023/2631), effective December 2024, sets a **voluntary but high-integrity label anchored in the EU Taxonomy**. Issuers using EuGB must:

- Allocate ≥85% of proceeds to Taxonomy-aligned activities.
- Publish a pre-issuance factsheet reviewed by an ESMA-supervised external reviewer.
- Provide annual allocation and at least one impact report.

Early EuGB deals (for example, A2A EUR 500 million; Île-de-France Mobilités EUR 1 billion) show strong demand.



Compliance costs are expected to be offset by long-term credibility.

For EU and non-EU issuers, EuGB alignment is emerging as a **'gold standard'**, complementing ICMA guidance with regulated review and taxonomy linkage.

The **EU Taxonomy Regulation (2020/852)**¹⁵ further defines sustainable activities and mandates disclosures under the SFDR and CSRD, aiming to prevent greenwashing and guide capital flows.



Additional guidelines

Many frameworks map eligible projects to **UN SDGs**¹⁶, providing a strategic reference for impact alignment and investor appeal.

Bottom line

Best practice means **clear use-of-proceeds**, robust **impact reporting**, **taxonomy alignment** for project bonds, **material KPIs and ambitious targets for SLBs** and **external validation** in addition to full **disclosure**. Bonds meeting these criteria are best positioned to withstand scrutiny.

V. Green bonds vs. SLBs: corporate structures under the microscope

Use of Proceeds bonds most commonly issued as green bonds and SLBs represent two distinct approaches to sustainable corporate financing. Both aim to mobilise capital for ESG objectives, yet they differ in structure, investor expectations and strategic implications.

Contrasting sustainable bond structures

Green bonds allocate proceeds to specific, eligible projects - such as renewable energy or energy-efficient infrastructure - enabling clear impact reporting and alignment with taxonomies. Their transparency appeals to ESG-focused investors and helps mitigate greenwashing concerns.



However, they offer limited flexibility and may not drive company-wide transformation.

Critics also question their **'additionality'** as some issuers repackage existing projects without increasing ambition. Impact realisation is often long-term.

SLBs, in contrast, link financial terms to company-wide sustainability performance, such as emissions reduction or diversity targets.



They embed ESG into financial strategy by adjusting coupons based on KPI achievement.

While offering greater flexibility, SLBs face credibility challenges due to weak or symbolic targets and minimal penalties. Investors increasingly demand science-based KPIs, transparent baselines and third-party verification.

The choice between green bonds and SLBs reflects a trade-off: **project-level traceability versus strategic flexibility**. Many corporates now adopt a **hybrid approach**, using green bonds for tangible assets and SLBs for broader goals, signalling both immediate impact and long-term commitment.

Decision guide for corporates



Green bonds

Best for taxonomy-aligned, measurable projects.



SLBs

Suitable for enterprise-wide goals, if targets are credible and aligned with climate pathways.



Hybrid approach

Combine both to balance transparency and strategic alignment with investor expectations. SLBs for portfolio-level commitments, balancing transparency with strategic flexibility.

Decision guide



Use-of-Proceeds (UoP) Green Bonds

- Pipeline of **concrete, eligible projects** (e.g., wind farms, green buildings)
- **Taxonomy** alignment ensures compliance with recognized green standards
- Provides **traceability** and attracts ESG-focused investors



hybrid approach possible



Sustainability-Linked Bonds (SLBs)

- Based on **enterprise-wide goals** (e.g., carbon intensity reduction, supply chain improvements)
- Capex can be **diffuse or not strictly "green"**
- Provides **flexibility**, but requires **credible, ambitious targets**

Source: DPAM



VI. Measuring real-world impact at the issuer level

Understanding whether a labelled bond contributes to tangible environmental or social outcomes often benefits from a structured assessment at issuer level. One possible approach is a **bottom-up evaluation across five dimensions**, particularly relevant for corporate issuers.



Outputs, outcomes, and additionality

For Use of Proceeds (UoP) bonds, indicators from frameworks such as the **ICMA principles** can help distinguish between **outputs** (for example, megawatts (MW) of solar capacity installed, number of students trained) and **outcomes** (for example, CO₂ avoided annually, improved literacy rates). In the case of SLBs, the emphasis tends to be on trajectory outcomes: how key performance indicators (KPIs) evolve over time (for example, emissions intensity reduction, increased gender diversity in leadership). Reporting actual figures (such as MWh generated or percentage emissions cut) can provide clarity.



Additionality is also a key consideration: **what difference did the bond make compared to a counterfactual scenario?**

For example, if a green bond enabled a solar project not previously included in CapEx plans, that suggests higher additionality. Conversely, refinancing completed projects may indicate limited impact. It is important to note that materiality, intentionality and additionality are assessed at instrument level, not issuer level, as they result from framework-based evaluations. Metrics like MWh of renewable energy or avoided GHG emissions are tied to the bond itself.



Intentionality

Evaluating the issuer's intent involves looking at alignment with recognised standards.



Indicators include the publication of a Bond Framework, external reviews, Second Party Opinion and/or adherence to the EU Taxonomy and initiatives like science-based targets.

These elements signal whether the bond is part of a broader sustainability strategy or a standalone effort. Sector-specific practices also offer insight. For instance, a utility issuing a transition bond might be expected to have a coal phase-out plan, while a bank issuing a social bond could have responsible lending policies in place. More broadly, intentionality can be assessed through alignment with internationally recognised standards based on scientific benchmarks, such as the EU Taxonomy in Europe, or local taxonomies and thresholds in other jurisdictions.



Materiality

Impact measurement tends to be most meaningful when focused on issues central to the issuer's sustainability profile. For a power company, this might be carbon emissions; for a bank, financed emissions or access-to-finance metrics; for a manufacturer, energy efficiency or water use. In SLBs, the relevance of the KPI to the core business is critical. For UoP bonds, the significance of the financed projects matter (for example, LED lighting upgrades may be less material for an oil company than for a tech firm).



Strong impact management often reflects alignment with sector-specific decarbonisation or social improvement pathways.

As with additionality and intentionality, materiality is best assessed at instrument level, where the relevance of the financed activity or KPI to the issuer's core sustainability challenges can be evaluated.



Data confidence and verification

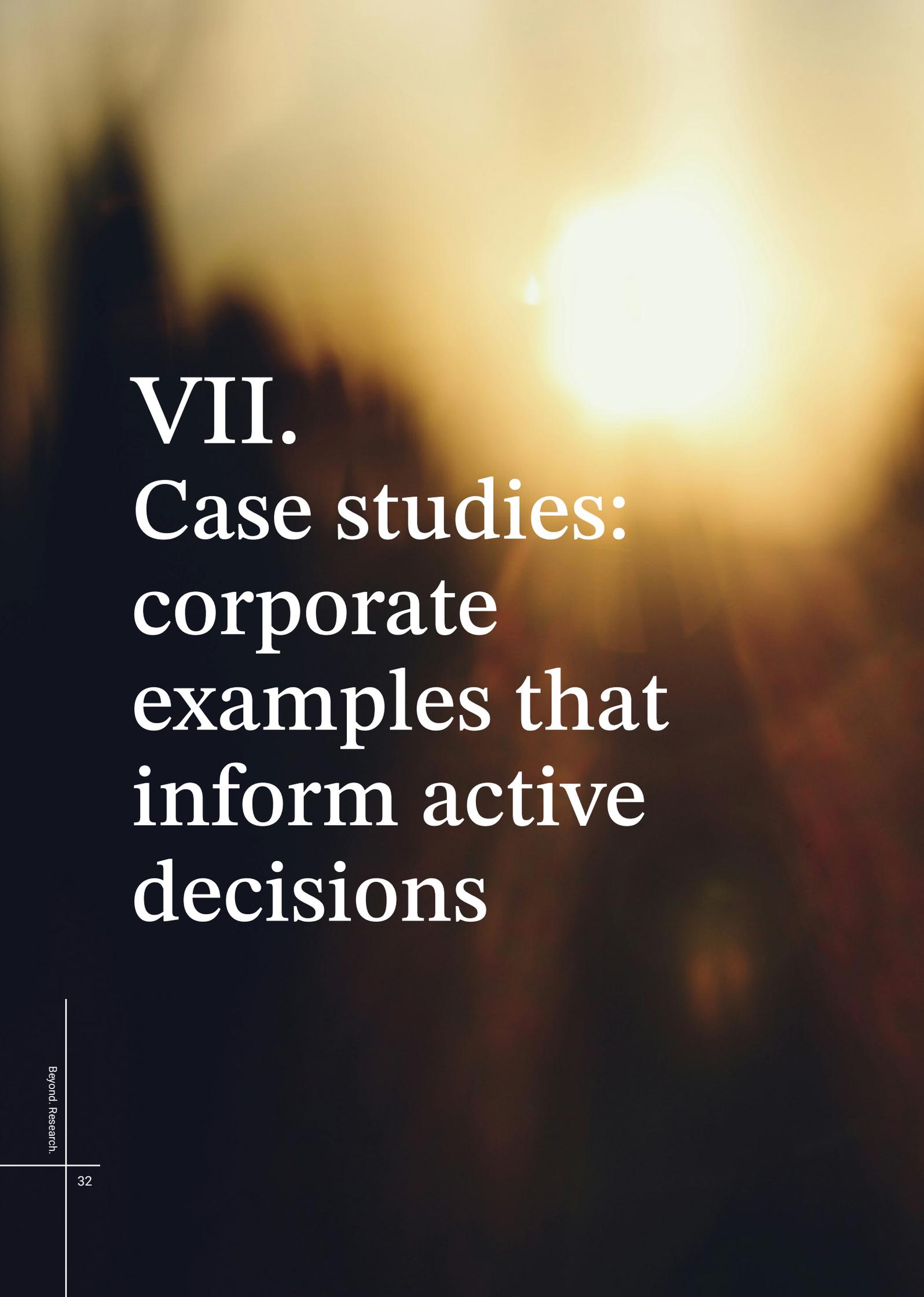
Confidence in reported impact is strengthened by independent verification such as audited allocation reports or third-party assurance of KPI results. Under the EU Green Bond Standard, for example, accredited external reviewers assess both **proceeds and impacts**. Even outside formal regimes, some issuers voluntarily engage reputable firms to verify claims. Transparency in methodology, such as how CO₂ savings are calculated and the baselines used, is another important factor. Disclosure of recalculation policies, especially for SLBs, is increasingly expected.

Red flag diagnostics

Certain patterns may suggest weaker impact integrity. For SLBs, these include immaterial KPIs, unambitious targets and vague or delayed reporting. For UoP bonds, concerns may arise from vague use of proceeds language, weak project criteria, lack of impact methodology or absence of third-party review.



Missed targets that are downplayed by management can also be telling.



VII.

Case studies: corporate examples that inform active decisions



Case study 1

Île-de-France Mobilités' EU Green Bond - financing clean mobility with high standards¹⁷

Île-de-France Mobilités (IDFM) issued a EUR 1 billion green bond in early 2025 under the **EU Green Bond Standard (EuGB)**. This marked one of the first major non-corporate issuances under the new framework, aimed at funding sustainable transport infrastructure across the region.



Impact and integrity

The bond proceeds were earmarked for projects such as:

- Electrification of bus fleets
- Expansion of metro and tram lines
- Energy-efficient station upgrades
- Accessibility improvements for passengers with reduced mobility

All projects were externally verified by an ESMA-supervised reviewer to ensure full alignment with the EU Taxonomy, including climate mitigation and adaptation criteria. IDFM also committed to using the Harmonized Framework for Impact Reporting (HFIR) template for transport infrastructure, disclosing metrics like CO₂ emissions avoided, MWh of clean energy used, and passenger capacity increases. The bond's integrity was reinforced by IDFM's decision to forgo the flexibility pocket, meaning 100% of proceeds were allocated to taxonomy-aligned activities.



Materiality, intentionality and additionality

The bond is material because it targets core sustainability challenges in the transport sector - carbon emissions and accessibility. It is intentional, demonstrated by alignment with the EU Taxonomy, use of the HFIR and external verification. It is additional in that it accelerated fleet electrification and retrofits beyond standard public budgeting timelines, showing the bond's catalytic role.



Market reaction

The bond was oversubscribed, with EUR 2.2 billion in orders. It priced five basis points through fair value, indicating a modest greenium. Over 60% of allocations went to ESG-focused investors, including dedicated green bond funds. Analysts noted that the bond's structure and transparency helped it stand out in a crowded market and its alignment with EU climate goals made it particularly attractive for portfolios seeking taxonomy-compliant assets.



Takeaway

This case demonstrates that high-quality green bonds in sectors like public transport can deliver clear environmental and social benefits while meeting investor expectations for transparency and credibility.

IDFM's use of the EuGB framework ensured traceability, external validation and alignment with policy goals, making the bond a benchmark for future public sector issuances.



Case study 2

Enel's Sustainability-Linked Bonds – target ambition, market response and lessons learned¹⁸

Enel has been a leading issuer of Sustainability-Linked Bonds (SLBs), with around EUR 30 billion outstanding. A key feature across ten of these SLBs was a shared Sustainability Performance Target (SPT): reducing Scope 1 carbon intensity from power generation to 148 gCO₂/kWh by the end of 2023, a roughly 35% reduction from the 2022 level of 229 gCO₂/kWh. This target was aligned with Enel's science-based transition plan and widely viewed as ambitious.

In early 2024, Enel confirmed it had missed the target, achieving an intensity of approximately 160 gCO₂/kWh. As stipulated in the bond terms, this triggered a 25-basis point coupon step-up across the ten SLBs, one of the first large-scale activations of a financial penalty in the SLB market.



Impact and integrity

Despite missing the target, Enel achieved a significant 30% reduction in carbon intensity, largely due to a cleaner energy mix and reduced coal usage. External validators noted that Enel's decarbonisation trajectory remained consistent with a 1.5°C pathway, reinforcing that the target was genuinely ambitious. **The miss also highlighted how external factors, such as the energy crisis, can disrupt even well-planned sustainability efforts.**

Financially, the penalty amounted to roughly EUR 25 million in additional annual interest, about 1% of Enel's interest expense and 0.1% of EBITDA. **While not financially material, the reputational impact was more pronounced.** The missed target prompted scrutiny from investors and ratings agencies, compelling Enel to explain the shortfall and reaffirm its sustainability commitments.



Materiality, intentionality and additionality

The SLBs were material, as the KPI - carbon intensity from power generation- is central to Enel's business and climate impact. They were intentional, backed by a science-based transition plan and externally validated targets. The bonds showed additionality by embedding performance incentives that drove measurable emissions reductions, even if the target was narrowly missed.



Market reaction

The SLBs saw noticeable trading activity. Ahead of the announcement, spreads widened in anticipation of the step-up. After confirmation, the bonds briefly rallied due to the higher coupon before stabilising, as investors reassessed Enel's overall transition credibility. Analysts viewed this as evidence that **SLB structures can influence pricing and investor behaviour, with sustainability performance risk increasingly priced into the market.**



Broader implications

Enel's SLB experience has become a reference point for more rigorous structuring. It demonstrated that **ambitious targets, transparent reporting and enforceable penalties can foster accountability and investor engagement**. However, Enel's recent return to issuing plain vanilla bonds, after being a flagship SLB issuer, raises concerns about the long-term effectiveness of SLB incentives. As highlighted by the Anthropocene Fixed Income Institute (AFII), this shift signals to investors that **SLBs may not always align with issuer preferences or strategic financing decisions, especially when penalties are triggered**.



Coupon step-up design

Step-up mechanisms are most effective when they are both meaningful and timely. For example, a 10-year SLB might include two observation points (for example, year 5 and year 10) with incremental penalties, rather than a single adjustment at maturity. **This structure can better incentivise performance and is increasingly reflected in market discussions, including recent ICMA guidance**. Designing step-ups with intermediate checkpoints enhances SLB credibility by reinforcing accountability throughout the bond's lifecycle and aligns with evolving expectations around performance-linked instruments.



Takeaway

This case illustrates how well-designed SLBs can drive meaningful corporate action and investor scrutiny.

It also underscores the importance of setting credible, science-based targets and aligning financial and reputational incentives with sustainability outcomes. At the same time, Enel's pivot back to conventional bonds suggests that SLB frameworks must evolve to maintain issuer engagement and ensure long-term market integrity.



VIII.

Active oversight of labelled bonds: engagement in practice

Active management and thorough analysis help mitigate risks such as **greenwashing**, while also identifying opportunities where sustainability performance may be mispriced. The following points outlines how these insights translate into day-to-day engagement.

Engagement levers

When investing in corporate labelled bonds, engagement with issuers to enhance the structure and transparency of these instruments is crucial. Key areas of focus include:



KPI relevance and target ambition (SLBs)

SLBs should be anchored in KPIs that reflect the issuer's core sustainability challenges. Ideally, **targets align with credible external benchmarks**, such as a 1.5°C climate pathway. Where targets fall short of peer or science-based standards, investors may raise concerns and encourage adjustments in future issuances or interim updates.



Coupon step-up design

Step-up mechanisms are most effective when they are both meaningful and timely. For example, a 10-year SLB might include two observation points (for example, year 5 and year 10) with incremental penalties, rather than a single adjustment at maturity. This structure **can better incentivise performance and is increasingly reflected in market discussions**, including recent ICMA guidance. Designing step-ups with intermediate checkpoints also enhances the credibility of the SLB structure by **reinforcing accountability throughout the bond's lifecycle**, rather than deferring consequences to the end. This approach aligns with broader efforts to improve SLB integrity and investor confidence and reflects evolving market expectations around performance-linked instruments.



Verification and assurance

Independent assurance of both allocation and impact reporting is essential. This aligns with the ICMA's best practices in 2024 and reinforces data credibility. For issuers targeting EuGB compliance, such verification is mandatory; for others, annual third-party reviews of KPI progress or impact metrics are necessary.



Transparency on missed targets

Openness when targets are not met is highly valued. Rather than treating step-ups as a procedural formality, **issuers are encouraged to explain the reasons behind the miss, lessons learned and any corrective actions**. This approach can strengthen long-term credibility and investor trust.

These engagement priorities reflect evolving market standards and regulatory expectations, particularly those outlined in the ICMA's 2024 updates . By consistently signalling that these elements matter to investors, the market environment can evolve to recognise and reward high integrity labelled bonds.

IX. Conclusion



From labels to lasting impact

The labelled bond market has entered a new phase, one defined less by innovation in structure and more by integrity, transparency and measurable outcomes. Corporate issuers now face a clear mandate:

demonstrate that sustainable financing translates into real-world change. Investors, in turn, are moving beyond marketing claims and demanding data-driven accountability.

Our analysis shows that while Use-of-Proceeds bonds remain the cornerstone of credible impact, Sustainability-Linked Bonds hold transformative potential if designed with ambition, materiality and verifiable metrics. **The emergence of regulatory frameworks such as the EU Green Bond Standard marks a pivotal shift from voluntary principles towards enforceable norms.** Together, these developments are raising the bar for what 'good' looks like in sustainable finance.

For professional investors, the path forward requires integrating impact verification and engagement into every stage of credit analysis, from issuer selection to post-issuance monitoring. Active oversight, grounded in robust due diligence and a consistent framework for measuring and attributing outcomes, is now essential to managing both sustainability and financial risk.

In short, going beyond labels is no longer optional. It is the foundation of credible sustainable investing, the key to preserving market trust, and the catalyst for aligning corporate finance with a low-carbon, inclusive global economy.

Endnotes

¹ICMA. [The Principles & related guidance](#)

²EUR- Lex. [European Green Bond Standard](#) EuGB - in application since 21 Dec 2024

³Moody's Sustainable Finance Global Q2 2025 update, [Sustainable bond issuance full-year forecast falls to \\$900 billion after soft first half](#)

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⁶Ibid

⁷DPAM analysis

⁸CACIB. Sustainable Bond Market Summary - ESG Issuance volumes Q3 2025

⁹Lester, A. [SLBs: 2024 issuance slumps as issuer wariness grows](#). Environmental Finance. June 2024

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¹¹Climate Bonds Initiative. [Climate Bonds](#)

¹²Emerging Markets Investors Alliance [Enhanced Labeled Bond Standards](#)

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¹⁴ESMA, [External Reviewers of European Green Bonds](#)

¹⁵EUR Lex summary, [Commission Delegated Regulation \(EU\) 2021/2139](#). June 2021

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