

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our Subscriber Agreement and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit [www.djreprints.com](http://www.djreprints.com).

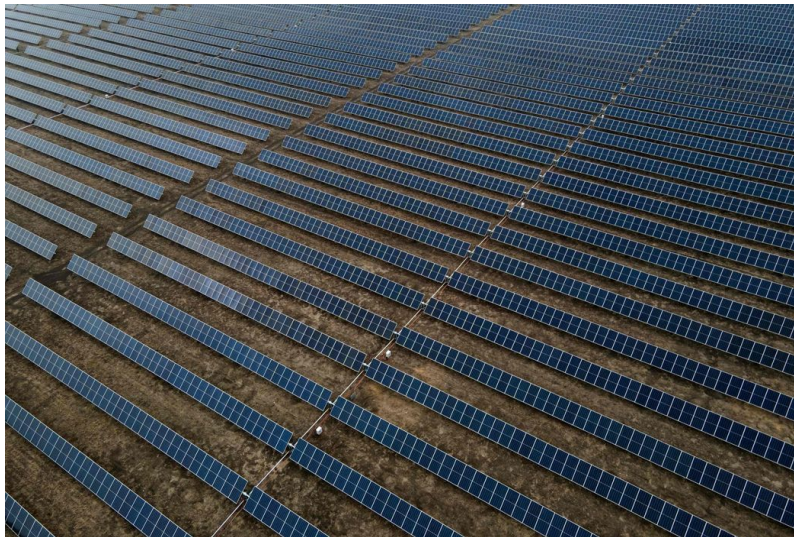
<https://www.wsj.com/articles/corporate-bond-issuance-is-boomingbut-not-sustainability-linked-bonds-4ec3279c>

# Corporate Bond Issuance Is Booming—But Not Sustainability-Linked Bonds

With its rate tied to meeting certain goals, issuance of this ESG-linked debt has tanked. Some say the SEC's new emissions-disclosure rule might eventually spur demand.

By [Kristin Broughton](#) [Follow](#)

March 13, 2024 6:00 am ET



A solar array in the Southwest. Sustainability-linked bonds tie the interest they pay to a company's success in meeting its stated ESG goal. PHOTO: MARK FELIX/AGENCE FRANCE-PRESSE/GETTY IMAGES

It's been a roaring start to the year for corporate bond issuance. But sustainability-linked debt, a relatively new and once-hot market niche, has plummeted since reaching a peak during the pandemic.

Sustainability-linked bonds are similar to ordinary bonds, with one key difference: Their interest rates rise if companies don't meet the environmental, social or governance targets that they set for themselves. The bonds appeal to issuers because the proceeds can be used for general purposes—unlike green bonds, which require companies to use the proceeds for a designated environmental project—and they also attract socially conscious investors.

Issuance of sustainability-linked bonds took off globally early in the Covid-19 pandemic as companies rushed to ride a wave of green investment. But since

pandemic as companies rushed to ride a wave of green investment. But since then issuance has plunged, as investors and regulators have become more skeptical of environmental promises, many of them seen as too high-flown, and others too slack to be meaningful.

U.S. companies in particular have faced political pushback on ESG-tinged projects and goals. Some uncertainty on environmental reporting was lifted last Wednesday, when details were released on the Securities and Exchange Commission's new climate-disclosure rule.

Sustainability-linked bond issuance globally has fallen 51% this year through March 12 compared with the year-earlier period, to \$9.6 billion, according to Dealogic. Of that total, U.S. companies raised a tad under \$2 billion—in just three transactions.

By contrast, at the 2021 peak, companies globally raised \$95 billion in sustainability-linked bonds, according to Dealogic.

Meanwhile, corporate green-bond issuance globally has soared 48% this year through March 12 compared with the year-ago period, to \$52.6 billion, according to Dealogic. In the U.S., corporate green-bond issuance has more than doubled, to about \$14 billion over the same period. Green bonds can only be used to fund projects that help the environment.

And U.S. investment-grade companies through March 12 raised \$265.3 billion by issuing traditional debt, a record going back to at least 1995, according to Dealogic.

New climate disclosure rules from the SEC could lay the groundwork for more sustainability-linked debt issuance, observers say. Under the SEC's new climate rule, companies must begin disclosing direct greenhouse-gas emissions from their operations, beginning with their annual reports for the 2026 fiscal year.

Because companies will be already doing the work to disclose emissions data to investors, they will have a clearer idea of what realistically they can promise as targets in sustainability-linked debt.

"It's almost two birds, one stone," commented Ana Carolina Oliveira, head of sustainable finance for the Americas at ING. Even so, for the new rule to have any

real effect on issuance will take years, bankers said.

Sustainability-linked bonds are appealing to companies that, for instance, might not have a green capital project to finance but are still reducing their emissions. The bonds would allow them to set emissions targets, use the proceeds for general purposes—and draw ESG investors.



Wind turbines off Denmark. PHOTO: TOM LITTLE/REUTERS

One of the biggest drags on the sustainability-linked bond market, however, has been the disconnect between investors, who have been vociferous in demanding more ambitious ESG targets, and companies, which are reluctant to sign up for targets they could miss, sustainable finance executives said.

As well, progress on meeting the targets must be verified by a third party, usually an auditing firm. But many companies with sustainability-linked bonds haven't yet been tested on their progress, so it's not clear if they will have to pay the step-up rate, bankers said.

Kinetik, a company that gathers, transports and processes natural gas, sold \$800 million in sustainability-linked bonds in December. In 2022, the company took on \$3 billion in sustainability-linked debt, a mixture of bonds and loans, as part of a deal to refinance its debt following a merger.

Kinetik has raised funds in the sustainability-linked market to showcase its commitment to reducing carbon emissions, a priority for its customers, vendors and investors, said Trevor Howard, Kinetik's finance chief. It has also allowed the company to attract investors with an interest in financing energy companies that are taking steps to reduce their carbon footprint, he said.

Kinetik's December issuance had a coupon of 6.625%. The interest rate steps up by a quarter percentage point if the company doesn't make headway by 2026 on three separate targets, including a 35% reduction in greenhouse-gas emissions from its operations by 2030, measured as a percentage of the total volume of gas that the company gathers.

Setting targets on sustainability-linked debt that are both ambitious and achievable isn't easy, Howard said. Kinetik's own target will require significant time and resources, he said.

"We feel very confident that we're going to hit them, but it's not free," Howard said.

Write to Kristin Broughton at [Kristin.Broughton@wsj.com](mailto:Kristin.Broughton@wsj.com)