June 2025

Framework for environment, social and governance debt securities (other than green debt securities) under the Securities Exchange Board of India

The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015 provides for 17 (seventeen) Sustainable Development Goals ("**SDGs**"). The SDGs emphasise the close links among the Environmental, Social, and Economic ("**ESG**") aspects of sustainable development. A substantial amount of funding is necessary to accomplish the SDGs. In alignment with this objective, the Securities Exchange Board of India ("**SEBI**") introduced the concept of Green Debt Securities ("**GDS**") through a circular issued in 2017. This concept was subsequently incorporated into the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 ("**NCS Regulations**")) to incentivise the financing of projects/asset class related to environmental sustainability.

SEBI through its circular dated June 5, 2025 ("**Circular**") has laid down a broad framework for issuance of social bonds, sustainability bonds and sustainability-linked bonds, i.e., ESG debt securities (other than GDS).

The framework has been issued pursuant to Regulation 12 A of the NCS Regulations. It supplements the existing requirements under both the NCS Regulations and SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Overview

ESG debt securities (excluding GDS) can be issued only with effect from the date of this circular i.e., June 5, 2025

Regulation 12A of the NCS Regulations mandates that issuers of ESG debt securities must adhere to conditions specified by SEBI. Conditions to be complied with for issuance of only GDS were set out under the Master Circular for issue and listing of Non-Convertible Securities, Securitized Debt Instruments, Security Receipts, Municipal Debt Securities and Commercial Paper dated May 22, 2024 ("**NCS Master Circular**"). Now under the Circular the conditions to be complied with for issuance of social bonds, sustainability bonds and sustainability-linked bonds have been set out. The Circular has come into force for issuance of ESG debt securities with effect from the date of the Circular i.e., June 5, 2025.

Meaning of ESG debt securities

ESG debt securities have been defined under the NCS Regulations as:

1. GDS;

2. social bonds;
3. sustainability bonds;
4. sustainability-linked bonds; and
5. any other securities by whatever name called, that are issued in accordance with such international frameworks as adapted or adjusted to suit Indian requirements that are specified by SEBI from time to time, and any other securities as specified by SEBI.

GDS is governed separately by the provisions specified in chapter IX of the NCS Master Circular.

Alignment with recognised standards

Debt securities may be designated as 'social bonds' or 'sustainability bonds' or 'sustainability-linked bonds' only if the proceeds raised through their issuance are proposed to be utilised for financing or refinancing projects and/or assets aligned with any of the following recognised standards or fall under the definitions of the respective debt securities: (a) International Capital Market Association (ICMA) principles/guidelines; (b) Climate Bonds Standard; (c) ASEAN Standards; (d) European Union Standards; and (e) any framework or methodology specified by any financial sector regulator in India.

Classification of a debt security

The power to classify a debt security as a GDS, social bond or sustainability bond lies with the issuer. Such classification should be determined by the issuer based on its primary objectives for the underlying projects and also subject to the conditions as may be specified by the SEBI from time.

1. 'Social bonds' means debts security for raising funds to be utilised for social project(s) that directly aim to address or mitigate a specific social issue and/or seek to achieve positive social outcomes especially but not exclusively for a target population under the following categories: (a) affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation); (b) access to essential services like health, education, vocation training, healthcare etc., (c) affordable housing; (d) employment generation; (e) climate transition projects; (f) food security and sustainable food systems; and (g) socio economic empowerment, etc, in addition to projects for environmental sustainability.
2. 'Sustainability bonds' means a debt security issued for raising funds to be utilised for finance or refinance of eligible green project(s) and social project(s) as specified in the definition of green bonds and social bonds.
3. 'Sustainability-linked bonds' means a debt security which has its financial and/or structural characteristics linked to predefined sustainability objectives, subject to the condition being measured through predefined sustainability key performance indicators ("**KPIs**") and assessed against predefined Sustainability Performance Targets ("**SPTs**").

Disclosure requirements

The Circular lists out 2 (two) types of disclosures to be made by the issuer of social bonds and sustainability-linked bonds: (a) initial disclosures; and (b) continuous disclosures. Initial disclosures should be made in the offer document for public issues/private placements, which include the rationale for issuance, taxonomies, standards or certifications both Indian and global, details of definition, calculation methodology and benchmarks for KPI(s) and SPT(s) and timelines, system/procedures for tracking the achievement of the targets, etc. Continuous disclosures should be made in the annual report and financial results. However, the issuer of sustainability bonds must comply with the provisions specified for GDS as specified in chapter IX of the NCS Master Circular as well as the standards specified for social bonds as specified in the Circular.

Requirement for independent third-party reviewer/certifier

Every issuer is required to appoint an independent third-party reviewer/certifier, to ascertain that the ESG labelled debt securities are in alignment with purposes mentioned in the recognised international standards and/or fall within the purview of definitions of such debt security as provided in the Circular.

The following criteria are required to be satisfied in order to be appointed. The reviewer must:

1. be independent of the issuer, its directors, senior management and key managerial personnel;
2. be remunerated in a way that prevents any conflicts of interest; and
3. have expertise in assessing ESG debt securities.

An ESG rating provider registered with SEBI will also be eligible to be appointed by the issuer to act as a third-party reviewer. ESG rating provider must also comply with the aforementioned conditions. The scope of the review(s) conducted by the independent third-party reviewer/certifier must be specified in the offer document.

Measures to mitigate the risk of purpose - washing and not being 'True to Label'

The Circular has listed several measures to be followed by an issuer of Social Bonds/ Sustainability Bonds to avoid occurrence of purpose-washing including the following:

1. while raising funds for social objects/sustainability objects, the issuer is required to continuously monitor to check whether the form of operations undertaken is resulting in reduction of the adverse social impact/sustainable impact, as envisaged in the offer document;
2. in the event the funds raised through social bonds/sustainability bonds are used for purposes not mentioned in their respective definitions and/or the recognised standards, the issuer must disclose the same to the investors and, if required, by majority of debenture holders, undertake early redemption of such debt securities;
3. the Issuer should not use misleading labels, hide trade-offs or cherry pick data;
4. the issuer must quantify the negative externalities associated with utilisation of the funds raised through social bonds/sustainability bonds; and
5. it will not make untrue claims giving false impression of certification by a third-party entity.

Conclusion

The introduction of the Circular is likely to benefit issuers and investors alike and bolster credibility, transparency, and global alignment in India's fast-evolving sustainable finance ecosystem. Given the 'reliance based' approach of the Circular on international standards, it is likely to attract more foreign investors especially multilateral agencies by positioning the Indian debt market as a jurisdiction which is aligned to the global practices and taxonomy in sustainable finance. Issuers especially in the infrastructure sectors can now tap into the bond market for affordable housing and other essential services such as public health and gender equity on globally established parameters.

Having said that, the larger challenge lies in the need for more sophistication of domestic issuers and their ability to create robust KPIs which can withstand the test of 'purpose washing' especially in projects which are of a long term nature. The landscape around third party verification in India is still in a nascent stage and needs more developments and players in this ecosystem.

The new framework on ESG debt securities introduced by the Circular is a well-intended initiative that has plugged the regulatory gap since 2017, making sustainable finance a core investment principle for the economy which is not just limited to green finance.

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This Prism has been prepared by:

Tirthankar Datta
Partner

Varun Sriram
Partner

Pritha Chatterjee
Partner

Bharkavi S
Senior Associate

Sudha Putrevu
Associate

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