

Exposure Of Proposed New Rule Of The Securities And Exchange Commission

Proposed New Rule On Social Bonds

1. DEFINITION OF TERMS

“**Social Bond**” means a type of debt instrument, where the proceeds would be exclusively applied to finance or refinance new and/or existing eligible projects with clear and identifiable social objective(s) and which are dedicated to an identified population.

“**Social Projects**” means a project directly aim to address or mitigate a specific social issue and/ or seek to achieve positive social outcomes whether or not exclusively, for a target population.”

“**Look-Back period**” means a maximum period in the past that an issuer can ‘look back’ to in order to identify assets/earlier disbursements to ‘eligible social projects’ that can be included in the social bond reporting.

2. ELIGIBLE PROJECTS

a) To qualify as a social bond, the monies shall be invested in providing and/or promoting one or more of the following social projects:

- i. Affordable basic infrastructure (e.g. clean drinking water, sewers, sanitation, transport, energy, etc.)
- ii. Access to basic services (e.g. health, education and vocational training, healthcare, etc.)
- iii. Affordable housing
- iv. Job creation including through the potential effect of small and medium-sized enterprises financing and microfinance
- v. Food security
- vi. Socioeconomic advancement and empowerment
- vii. Any other social project as may be approved by the Commission from time to time.

b) The projects must be dedicated to one or more of the following identified target populations:

- i. People living below the poverty line
- ii. Excluded and/or marginalised populations and/or communities
- iii. Vulnerable groups
- iv. People with disabilities
- v. Migrants and/or displaced persons
- vi. Undereducated population
- vii. Underserved population, due to lack of access to essential goods and services

- viii. Unemployed persons.

3. CONDITIONS FOR APPROVAL OF A SOCIAL BOND

In addition to the general registration requirements for debt issuances as stated in the Rules and Regulations of the Commission, an issuer of a Social Bond shall file:

- a. A letter committing to invest all the proceeds of the bond in projects that qualify as social project(s) or assets in line with this rule
- b. A feasibility Report stating clearly, the measurable benefits of the proposed Social project or Assets.
- c. A prospectus which shall disclose the social objectives, project selection criteria, decision-making procedures, social and environmental benefits, risks associated with the projects, use and management of the proceeds.
- d. An independent assessment or certification issued by a professional certification authority approved or recognized by the Commission.
- e. Any other documents as may be required by the Commission from time to time.

4. UTILIZATION AND MANAGEMENT OF PROCEEDS

- a. The net proceeds shall:
 - i. only be utilized for the purpose(s) stated in the approved offer documents
 - ii. be tracked as stated in the approved internal policy of the issuer which shall be disclosed in the offer documents.
 - iii. be domiciled with a Custodian in an escrow account specifically opened for the net proceeds
- b. The issuer and the Trustees shall be the signatories to the escrow account.
- c. The issuer shall deploy the proceeds in the social project within the given timeframe prescribed in the prospectus.
- d. Unallocated proceeds shall be invested by the Trustees in money market instruments with investment grade rating that include projects which are consistent with the delivery of positive social outcomes especially but not exclusively for a target population(s).

5. REPORTING

- a. An issuer shall provide to the Commission and any Exchange where the bond is listed, at least annually, a Social Bond Report containing the list of the projects and assets to which proceeds have been allocated, for the duration of the bond. The reporting process and authority shall be documented and maintained as part of the issuer's Social Bond Framework. The Social Bond Report shall include:

- i. A brief description of the projects and the amounts disbursed, including the percentage of proceeds that have been allocated to different eligible sectors and project types and to financing and refinancing. Where confidentiality agreements or competition considerations limit the amount of detail that can be disclosed, the information may be presented in generic terms.
- ii. The expected impact of the project and assets
- iii. Qualitative performance indicators and, where feasible, quantitative performance measures of the impact of the projects
- iv. The methodology and underlying assumptions used to prepare performance indicators and metrics.

b. The issuer shall publish an assessment report issued by an independent professional assessment or certification agency on its website or other media and conduct and report annual follow-up assessments of the social projects and associated environmental benefits throughout the tenor of the bond. It shall publish same in its annual report and on its website or other media, a copy of which should be filed with the Commission.

6. REFINANCING

Where the issuer proposes to utilise a proportion of the issue proceeds of the issue of Social Bonds towards refinancing of existing social assets, the issuer shall clearly disclose in the offer document the details of the portfolio/assets/projects which are identified for such refinancing, and, to the extent relevant, the expected look-back period for refinanced projects.

7. EXTERNAL REVIEW

- a) An issuer shall appoint (an) external review provider(s) to confirm the alignment of the proposed bonds with all components of the Social Bond Principles.
- b) An external review may be partial, covering only certain aspects of an issuer's Social Bond or associated Social Bond framework, or full, assessing alignment with all components of the Social Bond Principles.
- c) External review providers shall disclose their credentials and relevant expertise and communicate clearly the scope of the review(s) conducted.

Justification

The volume of social bonds issued in 2020 has increased eight times from a year ago, as interest in ethical investment rises and more governments and agencies see them as a key funding tool for specific projects.

Issuance of social bonds has surged to \$85 billion this year so far, compared with \$10.6 billion in the same period of 2019. The popularity of Social bonds has increased as the

COVID-19 crisis has led investors to place more emphasis on the "social" component of environmental, social and governance-driven (ESG) investing.

Governments, people and business have suffered serious financial crunch as a result of the COVID-19 Pandemic. In Nigeria, funding of social projects was affected as resources were diverted to unexpected areas of expenditure which ordinarily could have been financed by issuance of social bonds.