

Evaluating the Operational Framework for ESG Debt Securities

INTRODUCTION

The Securities and Exchange Board of India (“**SEBI**”), in December 2024, amended the Securities and Exchange Board of India (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (“**NCS Regulations**”) to introduce a new asset class of ‘ESG debt securities’ that includes green debt securities, social bonds, sustainability bonds and sustainability-linked bonds – see our analysis of the amendments [here](#). The amendments, however, did not provide the regulatory framework for the issuance of ESG debt securities; instead, through the introduction of Regulation 12A of the NCS Regulations, SEBI retained the right to prescribe conditions for the issue of such securities.

In this context, SEBI recently on June 05, 2025, issued a [circular](#) titled the ‘*Framework for Environment, Social and Governance (ESG) Debt Securities (other than green debt securities)*’ (“**SEBI Circular**”), specifying the operational framework for issuance and listing of ESG debt securities in India. In this note, we analyze the changes to the existing regulatory regime introduced by the SEBI Circular, and highlight key issues and concerns raised for relevant stakeholders in this regard. It should be noted that the SEBI Circular is not applicable to one category of ESG debt securities, namely green debt securities, for which a lacuna continues to exist as identified in our earlier analysis [here](#).

SCOPE AND APPLICABILITY

Under the NCS Regulations, ‘ESG debt securities’ are defined to mean green debt securities, social bonds, sustainability bonds, sustainability-linked bonds, or any other type of bonds (howsoever labeled) that are issued in accordance with such international frameworks as are adapted or adjusted by the SEBI to suit Indian requirements, or any other securities that may be specified by the SEBI. These ‘ESG

debt securities' (other than green debt securities) have now been defined in the SEBI Circular and will, for purposes of this note, be referred to as “**ESG Debt Securities**”.

The SEBI Circular is applicable to all (i) issuers who have listed or propose to list ESG Debt Securities; (ii) recognized stock exchanges; and (iii) all registered merchant bankers, depositories, debenture trustees, and ESG rating providers. The requirements of the SEBI Circular are in addition to the provisions of the NCS Regulations and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

ESG DEBT SECURITIES

The SEBI Circular defines the following categories of ESG Debt Securities:

Social bonds

The funds raised from an issue of social bonds are required to be utilized for a social project that directly aims to address or mitigate a social issue or seeks to achieve positive social outcomes for a certain target population (and could have wider effects as well). The SEBI Circular provides an illustrative list of projects falling within this category, such as projects relating to affordable basic infrastructure, access to essential services, affordable housing, generation of employment, climate transition projects, food security, and socioeconomic empowerment.

Sustainability bonds

The funds raised from sustainability bonds are to be utilized for financing or re-financing a combination of eligible green projects and social projects, as specified for green bonds and social bonds. In other words, sustainability bonds are bonds financing projects that combine positive environmental and social outcomes.

Sustainability-linked bonds

The SEBI Circular defines these to mean a debt security which has its financial and/or structural characteristics linked to predetermined sustainability objectives, subject to the condition that such objectives are measured through predefined Sustainability Key Performance Indicators (KPIs) and assessed against predefined Sustainability Performance Targets (SPTs).

In other words, sustainability-linked bonds are not necessarily aimed at raising funds for a pre-determined project or asset; rather the financial or structural characteristics of these bonds are linked to broader sustainability objectives pursued by the issuer. KPIs, in this case, are quantifiable metrics used to measure the performance of

indicators selected by an issuer, while SPTs measure improvements in KPIs within a prescribed timeline. In this regard, the SEBI Circular seems to be consistent with global standards in requiring such SPTs to be ambitious, material, and where possible, benchmarked and consistent with the issuer's overall sustainability/ESG policies and strategies.

The categories specified above are fluid in nature and many projects aimed at bringing about social benefits, may have environmental benefits, and vice versa. Accordingly, the classification of a debt security should be determined by the issuer based on the primary objective for which funding is raised.

The SEBI Circular permits labeling of ESG Debt Securities as 'social bonds' or 'sustainability bonds' or 'sustainability-linked bonds' only if (i) the debt securities are consistent with the definitions provided above; or (ii) the funds proposed to be raised through such issuances are utilized for projects which are aligned with international standards, including the Bond Principles of the International Capital Markets Association, the Climate Bonds Standard, the relevant ASEAN standards, the European Union Standards, or other frameworks or methodologies specified by any financial sector regulator in India. The issuer is free to choose the international standard (if any) it intends to follow, but this will have to be disclosed in the offer document and must be adhered to for the entire term of the debt securities.

DISCLOSURE REQUIREMENTS

Disclosure requirements for ESG Debt Securities have been placed in three discrete categories: initial disclosure requirements, continuous disclosure requirements, and implementation of a third-party review mechanism. These disclosures are in addition to the obligations under the relevant international standard (if any) that the issuer has chosen to follow.

Initial disclosures

The SEBI Circular prescribes certain initial disclosures for listing of ESG Debt Securities to be made in the offer document for public issues or private placements.

- **Social and sustainability bonds**: For social and sustainability bonds, these relate to, among other factors, identifying the social objectives of the project for which funds are raised, the details of the decision-making process for determining the eligibility of the project (e.g., how it complies with eligibility criteria, alignment with domestic and international standards and taxonomies), monitoring and mitigating social risks, and tracking and monitoring the deployment of the proceeds of the issue by

the board of directors of the issuer, or at its election, through an ESG committee formed for such purpose.

- **Sustainability-linked bonds**: For sustainability-linked bonds, the disclosures should focus on the rationale for the issuance and its consistency with the issuer's overall sustainability and commercial strategy, details of KPIs and SPTs (including the process and methodology for their selection, and the manner in which they address relevant ESG risks) and procedures for tracking the achievement of these targets within prescribed timelines (including quantitative details and key levers that would drive such performance). The issuer may elect to monitor the achievement of targets through an ESG committee.

Continuous disclosures

- **Social and sustainability bonds**: An issuer is required to disclose in its annual report, the details of the bond issue and use of proceeds, details of deployment of a mitigation plan for perceived social risks, and other qualitative and quantitative performance indicators. Alongside these, an issuer must also separately disclose the utilization of the proceeds of such bond issue (verified by an external auditor), details of unutilized proceeds, and prepare a report on the social impact of the project (including the standards/taxonomy followed for such reporting).
- **Sustainability-linked bonds**: An issuer which has listed sustainability-linked bonds is required to adhere to post-issue obligations specified in the relevant international standards under which such bonds have been issued. The issuer is also required to report updated information on the performance of the KPIs selected for such issuance (including baselines adopted), and procure a verification report prepared by an independent third-party in relation to the SPTs. Such report should include the performance of the issue against the SPTs, and its impact (including timing of such impact) on the bond's characteristics.

Third-party review mechanism

The SEBI Circular requires issuers of ESG Debt Securities to appoint an independent third-party reviewer/certifier to ascertain that the securities adhere to the specified standards. The scope of their review should be published in the offer documents for such securities. The SEBI Circular also entitles issuers to appoint an ESG rating provider registered with SEBI as the independent reviewer/certifier. This mechanism is intended to provide investors the added comfort that an independent party has verified the issuer's compliance, including with international standards where applicable.

The SEBI Circular also specifies certain guidelines to mitigate the risk of “purpose-washing” by issuers, i.e., making false, misleading, unsubstantiated, or otherwise incomplete claims about the purpose for which social/sustainability bonds have been issued. These include (i) continuous monitoring of the use of proceeds of funds raised for fit purposes, (ii) a duty to disclose any circumstances that would constitute improper use of funds and /or for such purposes as would not be aligned with the bond issue, and (iii) prohibition on use of misleading labels, obscuring unfavorable data on risk factors, and making false claims of third-party certification. Most significantly, in case of improper use of funds or misalignment with the purpose of the project, the issuer must, if required by the investors, undertake an early redemption of the debt securities.

KEY ISSUES

It should be noted that the SEBI Circular also applies to issuers of ESG Debt Securities whose specified securities are listed on the SME exchange. Such issuers are required to comply with the provisions of chapter IX of 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**”). However, as noted in our earlier analysis [here](#), chapter IX has been deleted from the NCS Master Circular pursuant to the SEBI (Issue and Listing of Non-Convertible Securities) (Third Amendment) Regulations, 2024 issued in December 2024, which omitted the governing provisions (i.e., Regulation 26) under which Chapter IX was adopted. Accordingly, until a clarification is issued by the SEBI, the applicability of chapter IX may continue to remain in question.

It is also unclear why the provision on avoidance of purpose-washing has been restricted to social and sustainability bonds, and does not cover sustainability-linked bonds. Given their flexibility and absence of end-use restrictions, sustainability-linked bonds may be more susceptible to greenwashing risks than other types of ESG Debt Securities. Under international standards, these risks are addressed through strict monitoring of KPIs and SPTs, including penalties for not adhering to these targets, and rigorous disclosure of these targets. Such restrictions and penal provisions should also be included in the SEBI Circular to prevent greenwashing risk in respect of sustainability-linked bonds.

Finally, the SEBI Circular permits ESG Debt Securities to be issued in compliance with certain international standards. However, these standards vary widely in their scope and applicability, and may be of limited use to some categories of ESG Debt Securities. Some standards may offer higher protections to investors in issuances of certain types of ESG debt securities, and not for others. For example, Regulation (EU) 2023/2631 of the European Union offers strong protections for investors in issuances of green

bonds, but does not legislate for social bonds, and has limited voluntary disclosure requirements for sustainability and sustainability-linked bonds. Accordingly, as a practical matter, investors should take care in understanding the full spectrum of protections afforded to them under the relevant standards prior to investing in a particular issue of ESG Debt Securities.

CONCLUSION

The SEBI Circular marks a significant step in formalizing the regulatory framework for ESG Debt Securities in India, introducing greater clarity, disclosure rigor, and alignment with international norms. For issuers, it provides a clear framework for structuring ESG Debt Securities. For investors looking to invest in projects with social or sustainability-related outcomes, it provides greater safeguards in the form of enhanced disclosure, monitoring requirements and third-party certification. However, key gaps remain – such as unresolved inconsistencies within existing SEBI regulations, the lack of safeguards against purpose-washing for sustainability-linked bonds, and limited practical utility of certain international standards in their current form.

As the SEBI Circular is effective from the date of its notification, issuers of such securities are advised to ascertain their compliance with the SEBI Circular immediately. While the SEBI Circular provides enhanced clarity and structure, it also introduces compliance burdens that may disproportionately affect smaller or less-resourced issuers.

To conclude, while the SEBI Circular is a step in the right direction, whether the new requirements have an overall positive impact on the growth of the market for ESG Debt Securities remains to be seen, and may need to be re-evaluated once these provisions have been tested.

*This insight has been authored by **Aparna Ravi** (Partner), **Kinnari Sanghvi** (Partner) and **Shuchita Goel** (Senior Associate). They can be reached on aravi@snrlaw.in, ksanghvi@snrlaw.in and sgoel@snrlaw.in, respectively, for any questions. This insight is intended only as a general discussion of issues and is not intended for any solicitation of work. It should not be regarded as legal advice and no legal or business decision should be based on its content.*

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ASSOCIATES
ADVOCATES



NEW DELHI
Max House
Tower C, 4th Floor
Okhla Industrial Estate Phase III
New Delhi 110 020
Tel: +91 11 4069 8000

MUMBAI
One World Center
1403 Tower 2 B
841 Senapati Bapat Marg, Lower Parel
Mumbai 400 013
Tel: +91 22 4302 8000