

ISDA Publishes Papers to Further Develop ESG Standards and Accounting Practices

NEW YORK, September 7, 2021 – The International Swaps and Derivatives Association, Inc. (ISDA) has today launched two new whitepapers examining key aspects of the fast-growing market for environmental, social and governance (ESG) transactions, with the aim of establishing robust standards and best practices for this sector.

The papers focus on key performance indicators (KPIs) for sustainability-linked derivatives and the accounting treatment for ESG transactions. They come in response to rapid developments in the scope and scale of ESG-related investments and hedges as market participants strive to meet climate and development objectives.

The [sustainability-linked derivatives paper](#) sets out proposed guidance for drafting KPIs, which are fundamental to the effectiveness and credibility of these transactions. Sustainability-linked derivatives tie cashflows on conventional hedging instruments to the meeting of specified ESG objectives using KPIs to measure compliance. The paper sets out principles to ensure those KPIs are specific, measurable, verifiable, transparent and suitable.

The [other paper](#) describes issues associated with the current accounting treatment of ESG transactions. Under US Generally Accepted Accounting Principles, the ESG component of a bond or loan could be classed as an embedded derivative requiring bifurcation and accounting at fair value. However, a lack of observable data means ESG features are currently difficult to value, resulting in information that is unlikely to be useful to readers of financial statements.

In response, the paper proposes alternative approaches that will improve the value of the information reported.

“ESG investments and hedges will be absolutely critical in the transition to a green economy, enabling companies to meet their sustainability goals effectively and efficiently. Given the rapid growth of this sector, it’s important we develop standards and best practices to ensure the market functions safely and efficiently. These papers make an important contribution to this work and complement other ISDA initiatives on legal documentation and definitions for ESG-related derivatives,” said Scott O’Malia, ISDA’s Chief Executive.

ISDA has published a variety of other papers on ESG-related topics, including:

[Implications of the FRTB for Carbon Certificates](#)

[Financing a US Transition to a Sustainable Low-Carbon Economy](#)

[Overview of ESG-related Derivatives Products and Transactions](#)

[Derivatives in Sustainable Finance: Enabling the Green Transition](#)

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About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 960 member institutions from 78 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on [Twitter](#), [LinkedIn](#), [Facebook](#) and [YouTube](#).

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