



Environmental, Social, and Governance Disclosure in Municipal Bond Issues

Sep 01, 2021

Categories:

[Blogs](#)

[Matters of Interest](#)

[Private Equity Industry](#)

[Blog](#)

Authors:

[Emma H. Mulvaney](#)

[Denise \(Barkdull\) Lund](#)

[Carrie J. Cecil](#)

Environmental, social, and governance (ESG) is not a new concept to the investment world. It encompasses many facets of investing, including investments focused on sustainability (such as a green bond) or social improvement (such as a social bond). Some investors view ESG as a broader social movement and target their funding of projects to align with specific ESG goals. This is seen through the emergence and popularization of bond designations based upon the intended impact, primarily green bonds and social bonds. These bonds allow investors to better target the impact of their financial investment based upon their personal beliefs and interests. Additionally, this movement has been newly adapted as a best practice for disclosure in the municipal market. Municipal issuers should consider an exercise in understanding their ESG risks and benefits and disclosing any ESG-related material risks in offering documents moving forward.

Green Bonds and Social Bonds

While no formal process for issuing such green or social bonds currently exists, the market has established standards, as published by the International Capital Market Association (ICMA).^[1]

- *Use of Proceeds* should be for a clear environmental or social benefit;
- *Process for Project Evaluation and Selection* should be described to the investors;
- *Management of Proceeds* should be allocated to green or social projects; and
- *Reporting* annually on use of proceeds should be provided to investors.

Additionally, ICMA recommends external review to verify the issuer's green or social claims through second opinion, verification, certification, and/or scoring or rating as a green or social bond.

When considering the issuance of a green or social bond, municipal issuers should weigh the potential market interest in a green or social bond designation compared to the additional costs of such a designation and more robust annual reporting.

ESG Risk Disclosure as a Best Practice

While understanding and cataloguing ESG risks and strengths is important to investors, this exercise also benefits the municipal issuer. According to Moody's, the "ability to address ESG risk will increasingly differentiate credit quality after [the COVID-19] pandemic."^[2] The rating agency discusses how limited resources and an increase for services in a post-pandemic world will challenge the public issuer's ability to operate while maintaining a strong financial outlook. Climate risks, if not addressed and properly prepared for, will likely affect credit ratings in the long term. Issuers need to consider which costs may be deferred and which are most critical, as well as which resources are most critical to ensure disaster preparedness due to increased climate risks, such as extreme weather and increased flooding. Social inequities have also been forced to the public view during the pandemic, especially those inequities in healthcare delivery and racial inequities. Further, demographic trends may play a role in increasing demand upon the healthcare system, while also potentially reducing revenue for higher education institutions. Such social factors are likely to increase the pressure on governments for more public services and intervention amidst sinking revenues and strained budgets. Thus, governance is key to proper budgeting and financial planning, as well as the mechanism for addressing such climate and social issues.

Recent publications by both the Securities and Exchange Commission (SEC) and the Government Finance Officers Association (GFOA) have signaled preferences for ESG disclosures. On March 8, 2021, the GFOA adopted ESG disclosures as a best practice for inclusion in municipal bond offering disclosures.^[3] The GFOA recommends three elements in crafting suitable ESG disclosure: "(1) vulnerability assessment, or recognition of ESG related risks, (2) plans/preparedness for mitigating such risks, and (3) progress updates, including impacts of recent ESG

elements/events and how they shape future response.”^[4] In a March 11 public statement, John Coates, the Acting Director of the SEC’s Division of Corporation Finance, said, “Going forward, I believe SEC policy on ESG disclosures will need to be both adaptive and innovative. We can and should continue to adapt existing rules and standards to the realities of climate risk. . . We will also need to be open to and supportive of innovation – in both institutions and policies on the content, format and process for developing ESG disclosures.”^[5] As ESG concerns and risks grow in significance in both the corporate and municipal worlds, municipal issuers can look to guidance from public bodies, as well as corporate issuers and filings.

This burgeoning trend in disclosure has not been widely incorporated in municipal offering documents. As such, issuers may struggle to determine materiality of ESG-related issues and related disclosures. The GFOA acknowledged such disclosure should be considered on a case-by-case basis based on the characteristics of the issuer, “The key for municipal issuers is to determine which ESG factors are material to their own credit profile and relevant to investors.”^[6] Accordingly, GFOA has not provided any standard disclosure language.

Conclusion

Bond markets will likely continue to see growth in various ESG-targeted bonds, as well as a continued discourse related to ESG disclosures in offering documents and post-issuance disclosures. Municipal issuers should begin to consider ESG risks and associated disclosures, if material, as part of their offering documents. Within the ESG risk analysis framework, municipalities and other public issuers must determine which ESG risks or opportunities are material, then provide necessary disclosure and demonstrate a mechanism for fostering financial resiliency.

For more information, please contact [Emma Mulvaney](#), [Denise Barkdull](#), [Carrie Cecil](#), or any attorney with Frost Brown Todd’s [Public Finance](#) industry team.

- [1] Green Bond Principles, International Capital Market Association, June 2018
<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Green-Bonds-Principles-June-2018-270520.pdf>; Social Bond Principles, International Capital Market Association, June 2020
[Social-Bond-PrinciplesJune-2020-090620.pdf](https://www.icmagroup.org/assets/documents/Regulatory/Social-Bond-PrinciplesJune-2020-090620.pdf) (icmagroup.org)
- [2] [Sector In-Depth – Public-Finance-US – 30Oct20.pdf](#) (cdfa.net)
- [3] <https://www.gfoa.org/materials/esg-disclosure> (While the GFOA recommends including ESG disclosure information as part of primary offering documents, it also notes that material factors are already required to be included in such documents).
- [4] GFOA, ESG Considerations for Governmental Issuers [915e145a-6ad4-437d-a3b9-eOb4b4ff9122_ESGResearchReport_GFOA2020.pdf](#) (prismic.io)
- [5] [SEC.gov | ESG Disclosure – Keeping Pace with Developments Affecting Investors, Public Companies and the Capital Markets](#)
- [6] GFOA, ESG Considerations for Governmental Issuers [915e145a-6ad4-437d-a3b9-eOb4b4ff9122_ESGResearchReport_GFOA2020.pdf](#) (prismic.io)

© 2026 FBT Gibbons LLP. May be considered attorney advertising in some jurisdictions.