



RESEARCH ARTICLE

The Specificity of Disclosure in Sustainability-Linked Debt Issuance: A Study in Saudi Capital Market Laws

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ARTICLE INFO	ABSTRACT
Received: Apr 23, 2025	This research paper examines the legal and regulatory framework for issuing sustainability-linked debt instruments, according to the Saudi Capital Market Authority's guidelines which is issued in 2025. The paper focuses on the concept of disclosure as a fundamental tool for enhancing confidence in financial markets, reviewing the shift from traditional financial disclosure to future-oriented performance-based disclosure linked to the criteria of environmental, social, and governance. The research also clarifies the four Key Performance Indicators (KPIs) criteria and the sustainability objectives, which must be ambitious, time-bound, and measurable. The research highlights the regulatory specificity of these instruments through the mandatory preparation of an "independent sustainability framework" alongside the prospectus, and the necessity of an external technical review to ensure the integrity and credibility of the issuer's commitments. This system aims to empower companies to play an active role in sustainable development while providing full legal protection and transparency for investors.
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INTRODUCTION

Financial markets are the fundamental pillar of modern economies, and their effectiveness depends primarily on the principle of transparency and disclosure, which ensures fair pricing of securities and decrease risks. With the global shift towards a green economy, investors are no longer solely concerned with financial profitability; their focus has expanded to include the environmental and social impacts of the companies they finance. In response to these shifts, Saudi capital market authority issue a modern legal framework, titled "Guide for Issuing Sustainability-Linked Debt Instruments" under Resolution No. (1-32-2025).

The paper highlights the legal speciality of these instruments, which differ fundamentally from traditional debt instruments. They are "forward-looking" instruments that link the financial characteristics of a bond to the extent to which the company achieves predetermined sustainability goals. The importance of this topic lies in its shift of the concept of disclosure from the realm of historical data and past results to the realm of future commitments and qualitative targets. This paper will address how these indicators are organized, and the strict requirements imposed by the Saudi regulator to ensure that these releases do not slip into mere marketing propaganda, through external review mechanisms and ongoing commitments that guarantee the rights of all parties in the financial market.

Definition of Disclosure

Disclosure was defining as "a process through which a company communicates with the outside world. The final outcome of disclosure is the financial statements and the data and information that appear therein. It means that financial reports should, fairly and clearly, include reliable information, and that the company's financial statements should show all the key information that is of interest to external stakeholders, helping them to make realistic and truthful economic decisions regarding the company (Bedford, 1973)." Others says by providing trustworthy information about the company's financial health, financial statements help stakeholders develop a sense of trust and

confidence. A company's credibility is increased by accurate and transparent financial reporting, which attracts potential investors, lenders, and business partners. The capacity of the company to generate returns, manage risks, and fulfil commitments can be evaluated by stakeholders (Agrawal, 2023).

The Importance of Disclosure

The importance of transparency has been widely recognized by both academics and market regulators, resulting in numerous rules and regulations being introduced over time to ensure timely and reliable disclosure of financial information, creating standards to which companies must adhere. Today, transparency is taking on a new meaning of more comprehensive and proactive disclosures instead of the release of corporate governance details or policies in a 'reactive' fashion. The new concept of transparency putting more responsibilities on the corporation not only let the truth be available to the public but imposes to disclose it to every stakeholder and different stakeholder groups (Fung, 2014).

Transparency in corporate financial performance reporting has become a cornerstone for building trust between companies and their diverse stakeholder groups. As global markets expand and investment landscapes grow more complex, stakeholders—including shareholders, employees, regulators, and the public—demand clearer, more reliable disclosures to make informed decisions. Transparent reporting not only ensures regulatory compliance but also enhances a company's reputation and long-term sustainability (Eyinade, et.al, 2022) also, studies have shown that listing company shares on US stock exchanges increases the capital of those companies in their home markets (Károlyi, 1998)

Transparency and disclosure are integral to corporate governance. Higher transparency and better disclosure reduce the information asymmetry between a firm's management and financial stakeholders—equity and bond holders, mitigating the agency problem in corporate governance. Study (Patel et.al, 2002) refers to document significant cross-country differences in transparency and disclosure among 19 large and liquid emerging markets countries. Our results suggest that firms with higher transparency and disclosure are valued higher than comparable firms with lower transparency and disclosure (Patel et.al, 2002).

The practices of Disclosure:

The Capital Market Authority (CMA) enforces the principle of disclosure in its executive regulations through two main tools: the prospectus and the ongoing disclosure obligations of companies.

Legal Regulation of Prospectuses in the Capital Market

Prospectuses have a central position in the public offering mechanism in the capital market. Juridically, a prospectus is a legal document that contains complete information about the issuer and the securities offered to the public (Usada, Rahayu, 2025)

The definition of a prospectus as any written information in connection with a public offering with the aim of getting other parties to buy securities (Issuance Regulations). The meaning of this definition emphasizes the function of the prospectus as a means of conveying legitimate and official information from issuers to potential investors. The prospectus is not just a promotional medium, but a form of legal accountability of the issuer for the truth and completeness of the data submitted (Usada, Rahayu, 2025).

Article 47 from Rules for offering securities and continuing obligations says "The prospectus must contain all information which is necessary to enable an investor to make an assessment of the activities, assets and liabilities, financial position, management and prospects of the issuer and of its profits and losses and must include information in relation to the number and price of the securities and any obligations, rights, powers and privileges attaching to them. If the Issuer is a Special Purpose Entity, the Prospectus shall include all information necessary to enable the Investor to evaluate the activity, assets and liabilities of the special purposes entity, in addition to the sponsor's assets, liabilities, financial position, management, expected opportunities, profits and losses. and it shall include information on the number and price of securities and any obligations Rights, powers and privileges associated with them", This provision includes financial statements, management profiles,

shareholder structure, risk analysis, plan for the use of funds, and legal conditions that cover the company (Usada, Rahayu, 2025).

The parties shall be jointly obligated to compensate the persons who purchased the security covered by the prospectus for any damages incurred as a result of such incorrect or misleading information.

The obligation of Continuing Disclosure

The Authority of Saudi Capital Market obligates that issuing companies – after listing their securities – continue to disclose information throughout their trading period on the market. Failure to comply with these obligations or to implement them will result in sanctions.

Disclosure of Material Developments

According to Article 79 from Rules for offering securities and continuing obligations which says "An issuer must disclose to the Authority and the public without delay any material developments in its sphere of activity which are not public knowledge, and which may affect the assets and liabilities or financial position or the general course of business of the issuer or its subsidiaries and which may reasonably lead to movements in the price of the issuer's listed securities or significantly affect an issuer's ability to meet its commitments in respect of listed debt instruments".

Accordingly, article 80 from Rules for offering securities and continuing obligations, the article obligate the issuer must disclose to both the Authority and the public about specific incidents which says "The issuer must immediately and without delay disclose to the Authority and the public any of the following developments (regardless of whether or not they qualify as "material" under Article (79) of these Rules):

1 (any transaction to purchase, sell, lease or mortgage an asset at a price equal to or greater than (10%) of the net assets of the issuer according to the latest reviewed interim financial statements or audited annual financial statements, whichever is later;

2 (any debt outside the issuer's ordinary course of business, of a value equal to or greater than (10%) of the issuer's net assets; according to the latest reviewed interim financial statements or audited annual financial statements, whichever is later;

3 (any losses equal to or greater than (10%) of the issuer's net assets; according to the latest reviewed interim financial statements or audited annual financial statements, whichever is later;

4 (any significant change in the issuer's production environment or activity including (but not limited to) the availability of resources and the possibility of obtaining them;

5) any changes in the composition of the directors, the audit committee or to CEO's position of the issuer, and in case the issuer is a special purposes entity, any changes in the composition of the directors, the audit committee or to CEO's position of the sponsor and the special purposes entity;

The significance of financial statements as a tool for understanding a company's financial position as well as the significance of effectively preparing and analyzing them to gain insightful information for decision-making and performance evaluation (Agrawal, 2023)..

Revelation of Finance Information

Based on the legal obligations governing the offering of securities require the issuer to disclose its annual financial statements and its interim financial statements for the first, second, and third quarters of its fiscal year to the Capital Market Authority and the public immediately upon approval and before publication to shareholders or other parties, through the electronic channels designated by the market.

Financial statements provide significant information to both the stakeholders and the internal members of the organization which could help them in making a crucial decision. Investors decide their investment in a company by interpreting its financial statements to get their profitability and prospects. Owners assess their financial records to determine whether the company is giving profits, do they need to improve their business strategies or if the business should shut down completely. Creditors make their decisions after assessing the company's financial statements by gaining enough confidence in the company as to whether the company will be able to repay its debt or not. The employees also are assured of their income through a positive financial record (Agrawal, 2023).

Also, the regulations stipulate as the auditor reviewing the issuer's financial statements must be registered with the Capital Market Authority.

The legal framework for issuing sustainability-linked debt instruments

The Saudi Capital Market Authority issued a guide for issuing sustainability-linked debt instruments, pursuant to Resolution No. 1-32-2025 dated 17-3-2025.

This guide serves as the reference framework for issuing sustainability-linked debt instruments. It is worth noting that the guide distinguishes between sustainable debt instruments and sustainability-linked instruments. Sustainability-linked debt instruments (SLL/Sustainability-Linked Bonds) are instruments where the use of the proceeds is not specified. The issuer can use the funds for any general corporate purpose, but the debt instrument itself is linked to the issuer's sustainability performance indicators. For example, bond terms (such as interest rate or early call option) change based on the company's ability to achieve specific performance indicators defined before issuance, such as reducing emissions by a certain percentage or increasing energy efficiency. If the company achieves the targets, the bond terms may improve, such as increasing the bond's interest rate. Conversely, if the performance indicators are not met, the bond's interest rate will decrease (Awad & Elhadedy, 2025). The principles define debt-linked bonds as "any type of bond with structural and/or financial features that are subject to change depending on the issuer's achievement of pre-agreed sustainability (ESG) objectives. Based on this, the issuer explicitly commits (and this commitment is included in the bond's issuance documents) to achieving specific future sustainability outcomes within a predetermined timeframe. Therefore, sustainability-linked bonds can be considered forward-looking bonds that depend on the bond's expected performance in achieving sustainability objectives. (Principles of Debt-Linked Bonds, 2020)"

The International Organization of Securities Commissions (IOSCO) (Principles of Debt-Linked Bonds, 2020) has indicated that debt-linked bonds aim to enable and develop the key role that sustainability markets can play in financing and encouraging companies that wish to contribute to sustainability. The principles of sustainability-linked bonds clearly state that integrity plays a crucial role in the market to enable companies to fulfill this role (Principles of Debt-Linked Bonds, 2020).

An examination of the regulations outlined in the guide for issuing sustainability-linked debt instruments reveals a different approach to regulating financial markets. This approach shifts disclosure from simply presenting traditional financial information to disclosure based on future performance, particularly future performance directly related to sustainability.

Subscribers to sustainability-linked debt instruments are now primarily concerned with achievable environmental and social objectives, not just profitability. Companies with environmental and social goals are often the target of this type of debt instruments (Al-Sakarna, 2022).

Performance Indicators Governing the Issuance of Sustainability-Linked Debt Instruments

The regulations governing sustainability-linked debt instruments, as outlined in the guide issued by the Saudi Capital Market Authority, establish four fundamental criteria for performance indicators:

- 1- Essential relevance to the issuer's activity; therefore, the issuer must select performance indicators directly related to its operations.
- 2- Consistency of indicators with the sustainability strategy; thus, sustainability should be a primary driver of the issuer's activities.
- 3- Measurability of indicators; this transforms indicators from mere promotional and marketing tools into objective indicators that enable subscribers to verify the implementation of the sustainability goals for which they subscribed.
- 4- Reviewability and comparability of indicators against benchmarks.

Criteria for Sustainability Goals Based on Sustainability-Linked Performance:

These goals must meet three main conditions

A- Ambition; the guide emphasizes that the goals must exceed the issuer's usual operations.

B- Linkage to sustainability; the goals must be consistent with the issuer's sustainability strategy.

C. Time-bound: Objectives must be translated into measurable activities with specific timeframes and clear implementation plans.

D. Comparative methodology: This relies on historical performance (3 years), internal targets, sectoral benchmarks, and external standards, both local and internal.

Prospectus for Sustainability-linked Debt Instruments

The issuer of sustainability-linked debt instruments must disclose the following information

A. Definition of key performance indicators (KPIs) and sustainability performance objectives.

B. Characteristics of the sustainability-linked debt instruments and any potential events that could affect those characteristics.

C. Explanation of the mechanisms in place if the sustainability objectives cannot be effectively measured or monitored.

Sustainability-Linked Debt Framework

A sustainability-linked debt framework is “ a regulatory and disclosure document prepared by the issuer (company or entity) that explains how a debt instrument (such as bonds or Sukuk) will be linked to sustainability objectives, and how this link will be measured and monitored”. The issuer is obligated to prepare a sustainability-linked debt framework document that clearly includes the following information (Guide to Issuing Debt-Linked Instruments, 2025):

1. A statement of the mechanism adopted for determining key performance indicators (KPIs), clarifying their alignment with the issuer's sustainability strategy and their connection to relevant Sustainable Development Goals (SDGs).

2. A precise definition of the KPIs, including their scope and applications, as well as the methodology used to calculate them.

3. A clear explanation of the objectives associated with the KPIs and the issuer's commitment to achieving them.

4. Disclosure of any information or factors that may affect or hinder the achievement of sustainability performance objectives. 5. A detailed statement defining the sustainability performance objectives and their dimensions, including the issuer's level of ambition for achieving these objectives, the data referred to in subparagraph (1) of paragraph (b) of section (2) of this chapter, and the specific timeframe for achieving them. The baseline adopted for developing key performance indicators (KPIs) must also be clarified, along with the rationale for its establishment (including the date and time period), the circumstances under which the sustainability performance objectives may be recalculated, and the mechanism for achieving these objectives, taking into account competition and confidentiality considerations. Additionally, any factors outside the issuer's control that may affect their achievement must be disclosed.

In the case of a public offering of sustainability-linked debt instruments, the issuer must publish the framework for these instruments to investors before or concurrently with the publication of the prospectus, making it publicly available throughout the issuance period via the market's website.

Disclosure Features for Issuing Sustainability-Linked Debt Instruments

First: Transition from Historical to Future-Linguistic Disclosure

Disclosure typically focuses on the issuer's historical financial data (financial statements, profits, cash flows) to assess the issuer's current position.

In sustainability-linked debt instruments, disclosure is based on future goals linked to performance indicators.

Therefore, the issuer is not evaluated solely based on the company's history and past practices, but rather on indicators that determine the company's future performance and what it must do in the future.

Second: Mandatory Non-Financial Performance Indicators:

In conventional securities, the focus is on purely financial indicators. However, in sustainability instruments, environmental (emissions, energy) and social (safety, diversity) indicators must be disclosed.

Third: A Separate Disclosure Framework for the Prospectus

Issuing securities requires the issuer to prepare a prospectus containing the minimum data and information required for disclosure. In the field of sustainability-related debt instruments, the issuer must issue a separate disclosure framework in addition to the prospectus. This framework is a regulatory and disclosure document prepared by the issuer (the company or issuing entity) that explains how the debt instrument (such as bonds or Sukuk) will be linked to sustainability goals, and how this link will be measured and monitored.

It is worth noting that the principles of the International Capital Market Association (ICMA) (cma.gov.sa) indicate that this framework is a fundamental document issued by the issuer, outlining to investors how the proceeds will be used to finance sustainability-related projects. It ensures transparency and accountability regarding objectives, project selection mechanisms, risk management, and the use of returns (cma.gov.sa). Therefore, the framework document is considered part of the offering and constitutes the issuer's environmental, social, or both commitments to the public.

Fourth: Mandatory External Technical Review

In traditional financial instruments, the review focuses on the financial statements. However, in sustainability-related financial instruments, a specialized external review is conducted to assess the quality of the indicators upon which the issuer bases its sustainability-related debt offerings. This review is crucial for evaluating the planning aspects of these instruments.

It should be noted that this element of issuing sustainable debt instruments came in line with one of the main recommendations included in the principles of the International Capital Market Association (ICMA), which is external auditing (Principles of Green Bonds, 2021). The principles recommended achieving the principles of transparency and integrity that the securities market in general, and the sustainable debt instruments market in particular, should be characterized by, as they recommended the necessity of relying on external auditing, whether in the pre-issuance or post-issuance stage.

CONCLUSION

In conclusion, this study demonstrates that the legal framework for issuing sustainability-linked debt instruments in the Kingdom represents a significant leap forward in financial market legislation. The regulator has successfully integrated global sustainability standards (such as the ICMA Principles) into the local legal environment. The study has shown that disclosure in these instruments is not merely a formality, but rather the core of the legal contract between the issuer and the investor. Direct financial implications (such as interest rate increases or decreases) arise based on the accuracy and veracity of the disclosed information regarding sustainability performance.

The Capital Market Authority's imposition of an independent framework for disclosure and mandatory external review reflects a deep understanding of the risks of misleading non-financial information. Furthermore, holding senior management and financial advisors accountable for the accuracy of information in the prospectus reinforces the seriousness of these obligations. Therefore, the success of these instruments depends closely on companies' ability to formulate performance indicators that are intrinsically linked to their operations and sufficiently ambitious to transcend "business as usual." This regulatory approach not only contributes to attracting global capital but also encourages Saudi companies to adopt more flexible and sustainable business models, thus achieving the goals of the national vision in building a strong and responsible economy.

RESULTS AND RECOMMENDATIONS

Results

Disclosure has transformed from focusing on historical financial data to focusing on future performance linked to sustainability indicators (KPI's).

This debt instruments are characterized by the ability of changes in their financial terms (such as interest rates) based on the issuer's success or failure in achieving the agreed-upon sustainability objectives.

Saudi legislator has established four standards for performance indicators substantial correlation, alignment with strategy, measurability, and auditability.

Responsibility for illusionist informations in the prospectus extends to the issuer, board members, senior executives, and financial advisors.

Recommendations

It is mandatory to depend on external auditors which they have technical expertise in sustainability to ensure the accurate measurement of environmental and social indicators.

Companies must put sustainable goals that go beyond "business as usual" to ensure investor confidence and achieve tangible impact.

Sustainability-linked debt instrument framework should have published before or concurrently with the prospectus and made publicly available throughout the issuance period.

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