

Sustainable Markets

# Navigating through the sustainable finance jungle

18<sup>th</sup> March 2021

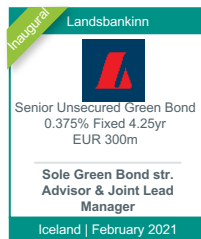
**Joop Hessels** – Head of Green, Social & Sustainability bonds at ABN AMRO





## Green, Social, Sustainability Bonds

- Public bonds
- Private placements
- Asset-backed securities
- Schuldschein



## ESG rating linked finance



- Revolving Credit Facilities -
- Term Loans -
- Private placements -
- ECP -

## Sustainability linked Bonds

- Public Bond
- Private placement
- Schuldschein



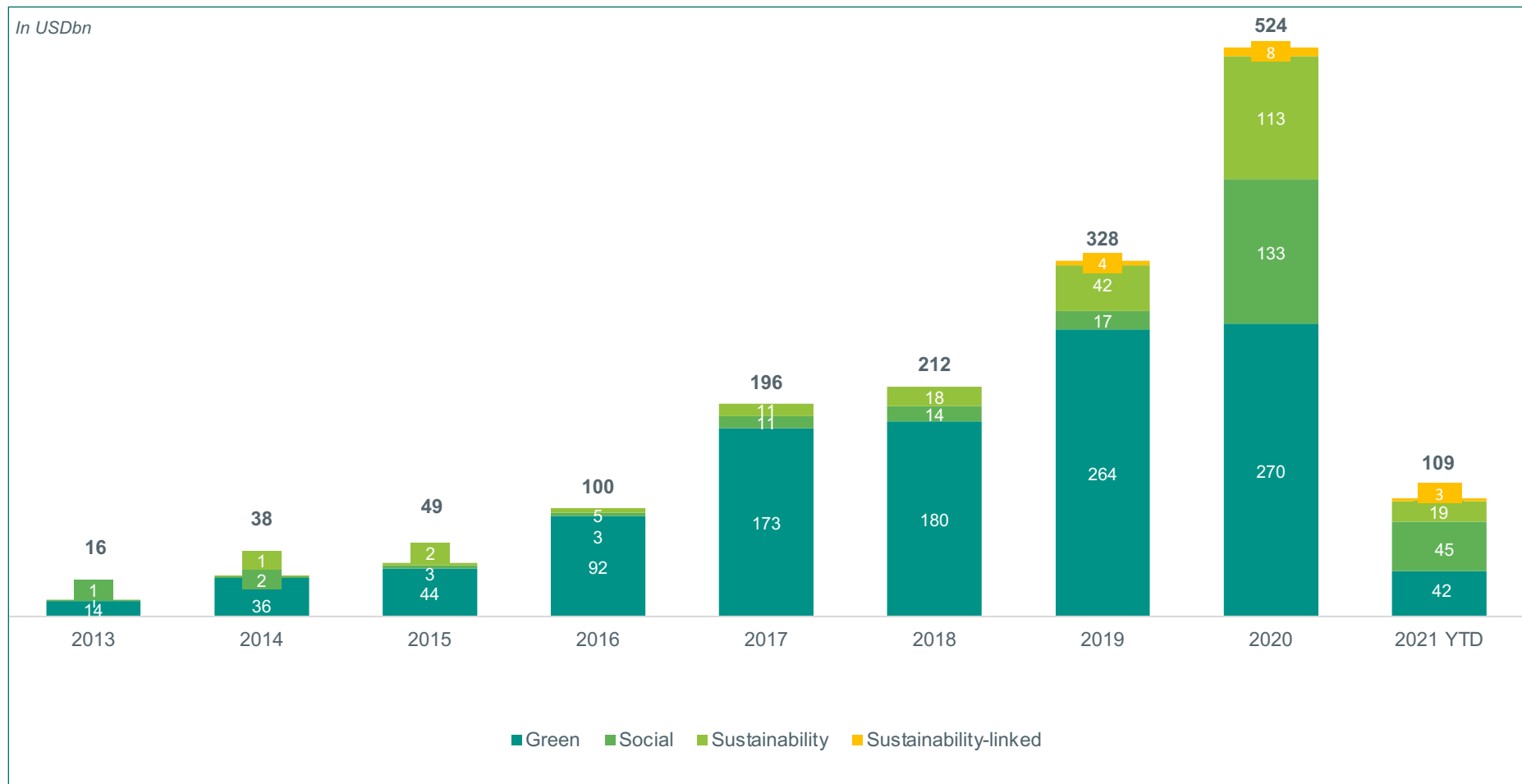
### Green & Social Bond Principles

Use Of Proceeds	Process of project evaluation and selection
Management of proceeds	Reporting

### Sustainability Linked Bond Principles

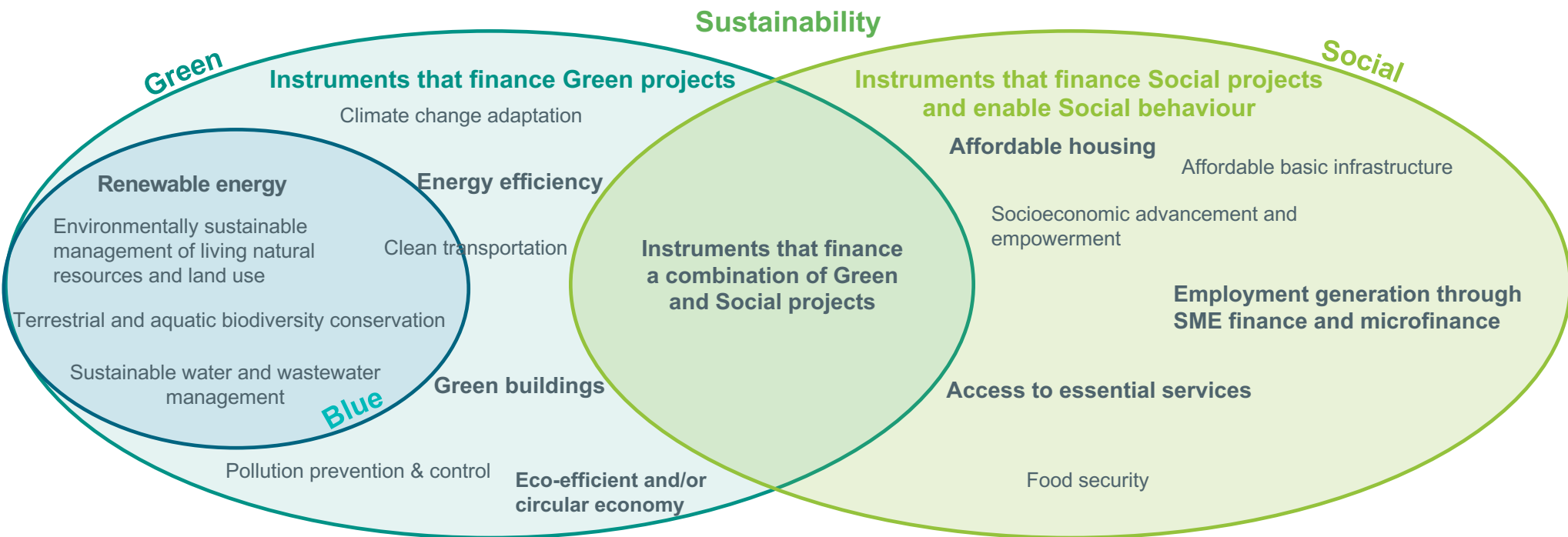
Relationship to Borrower's overall CSR Strategy	Target Setting
Reporting	Review

# Exponential growth for Sustainable debt continues despite Covid-19

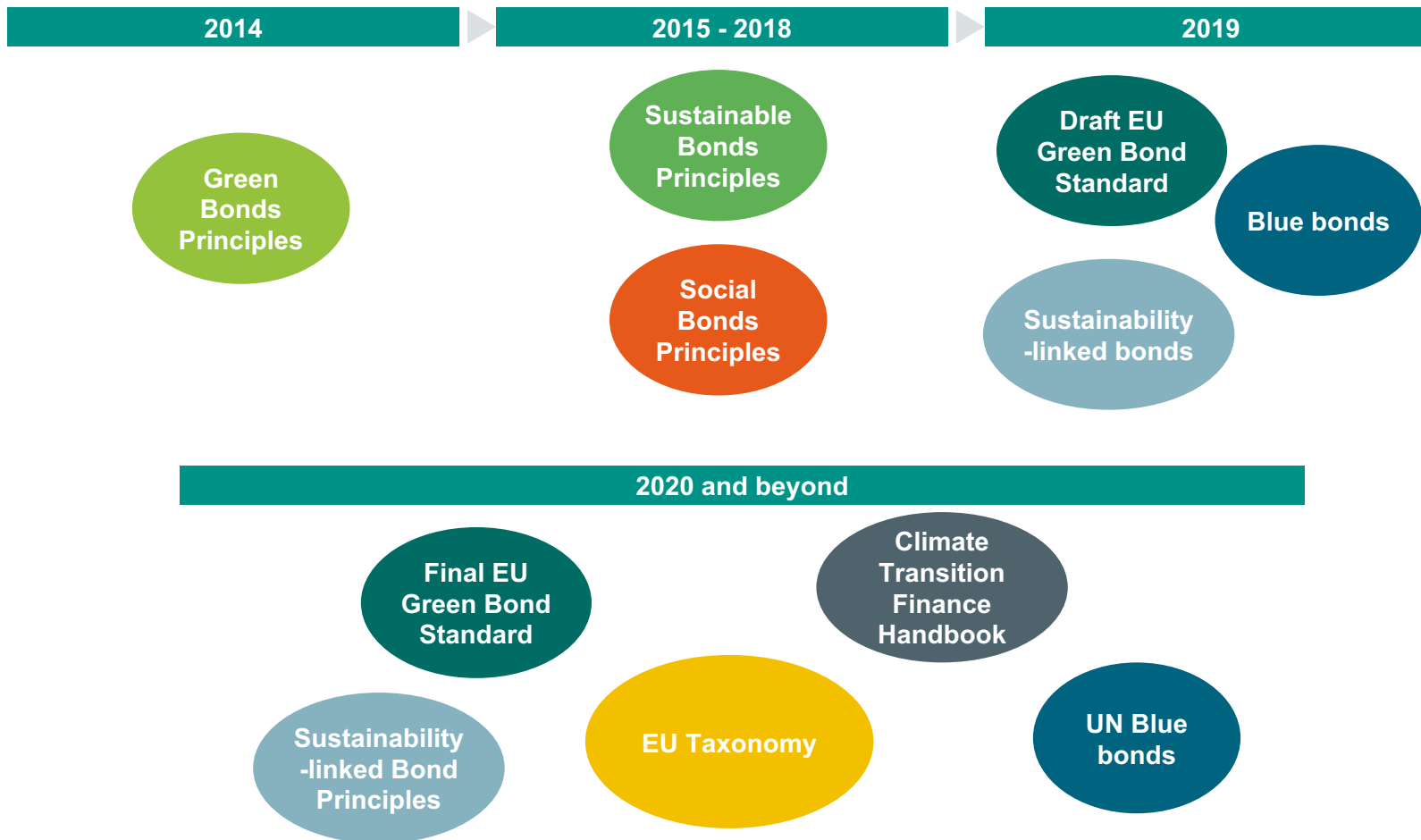


YTD data as of 27/02/2021





# The changing landscape: increasingly new innovative instruments





# What is a Sustainability-Linked Bond?



## Sustainability-Linked Bond

*“Any type of bond for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined sustainability objectives, while the proceeds of the bond are intended for general corporate purposes”*

– ICMA, Sustainability Linked Bond Principles (2020)



## Focus of sustainability objectives

One or more **long-term sustainability objective(s)**, material for the company and/or its sector

→ e.g. a company's carbon emission reduction target









## Impact on financial or structural characteristics

Public bonds issued to date **provide a benefit to investors** in case the target is missed, either via:

- + a **coupon step-up** triggered from a certain measurement date during the lifetime of the bond
- + a **price premium paid at maturity** of the bond, i.e. redeeming the bond above par

## Examples

<u>Coupon step-up</u> ENEL 5yr bond issued in 2019	
	<p>✗ Missed target</p> <p>=</p> <p>  Renewable Energy installed capacity 55% by 31-12-2021           </p> <p>  Coupon + 25bps (final three years)           </p>

<u>Cash-premium at maturity</u> Odfjell 4yr bond issued in 2021	
	<p>✗ Missed target</p> <p>=</p> <p>  Fleet Annual Efficiency Ratio ≤ 8.18 by June 2024           </p> <p>  Bond redeemed at 101.5 (cash premium)           </p>



## Pros & cons

- + Format is flexible as there is no obligation for a sustainable use of proceeds
- + Opportunity for 'asset-light' companies & companies with limited green / sustainable assets
- + Besides reporting on targets no additional reporting required (e.g. allocation & impact reporting)
- ✗ Credible and medium- to long-term sustainability targets need to be in place
- ✗ Negative financial impact in case the sustainability target is missed
- ✗ Not included in Green Bond Indices (e.g. MSCI Green Bond Index)



## Investor perception

- The majority of investors is in favour of Sustainability-Linked Bonds
- Linking a target to a bond transaction is viewed as a strong sign of commitment to such a target
- Format supports diversification of the sustainable bond market
- Conflict of interest between investor return and sustainability performance
- Challenging to assess ambition level of sustainability targets (information asymmetry)
- Fit with most generic investment mandates, not with all dedicated Green/Sustainable Bond Funds





# EU Taxonomy: based on activities and business models instead of assets or KPIs

## A What is the EU Green Bond Standards (EU GBS)?

- The EU GBS is a **voluntary initiative at European level** to enhance transparency, integrity and consistency of the Green Bond market
- It is the first financial product which requires alignment with the **EU Taxonomy** - a clear classification of environmentally sustainable economic activities

## B What is “green” and does not cause significant harm?



Climate change mitigation



Climate change adaptation



Transition to circular economy



Sustenance and protection of water and marine resources



Pollution prevention and control



Protection of biodiversity and ecosystems

## D What are the next steps?

**April 2021**

Expected final version of Delegated Act of the Taxonomy Regulation for Climate Change Mitigation and Adaptation

**1st January 2022**

Effectuation of EU Taxonomy for Climate Change Mitigation and Adaptation  
Require implementation in annual reports 2021

**1st January 2023**

Effectuation of EU Taxonomy for remaining four environmental objectives

2021

**31st December 2021**

Adoption of Delegated Act of the Taxonomy Regulation for remaining four environmental objectives

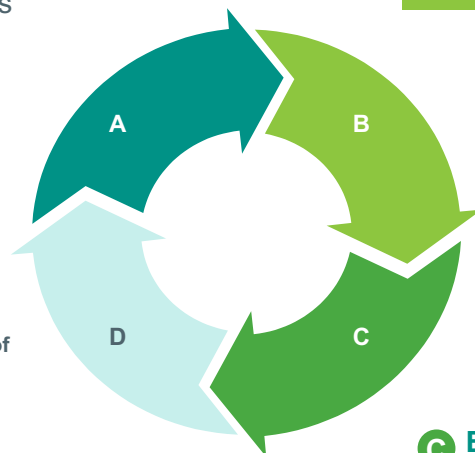
2022

Disclosure in relation to Climate Change Mitigation and Adaptation

2023

**31st December 2022**

Disclosure in relation to all environmental objectives



The European Commission has also formed a working group on the social taxonomy, which is planned to complement the Green Taxonomy

## C Example: The EU Taxonomy at work in sub/urban transportation

**Principle:** Demonstrate substantial GHG emission reduction by

- Increasing number of low- and zero emission fleets and improving fleet efficiency
- Improving efficiency of the overall transport system

**Criteria:** CO<sub>2</sub>e emissions per passenger-kilometre

- Zero direct emissions land transport activities are eligible
- Other fleets are eligible if direct emissions are below 50 gCO<sub>2</sub>e/pkm until 2025 (non-eligible thereafter)

The background is a collage of various icons and images related to sustainability and climate change. It includes a city skyline, a thermometer, a cloud with 'CO2', solar panels, wind turbines, a battery, a factory, a graduation cap, a lightbulb, a beaker, a recycling symbol, and several green plants in pots.

# Any questions?



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