



Sustainable Markets

Navigating through the sustainable finance jungle

18th 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

Islandsbanki
Senior Unsecured Sustainable Bond
0.500% November 2023
EUR 300m
Joint Lead Manager
Iceland | November 2020

Landsbankinn
Senior Unsecured Green Bond
0.375% Fixed 4.25yr
EUR 300m
Sole Green Bond str. Advisor & Joint Lead Manager
Iceland | February 2021



ESG rating linked finance



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

Sustainability linked Bonds

- Public Bond
- Private placement
- Schuldschein



Green & Social Bond Principles

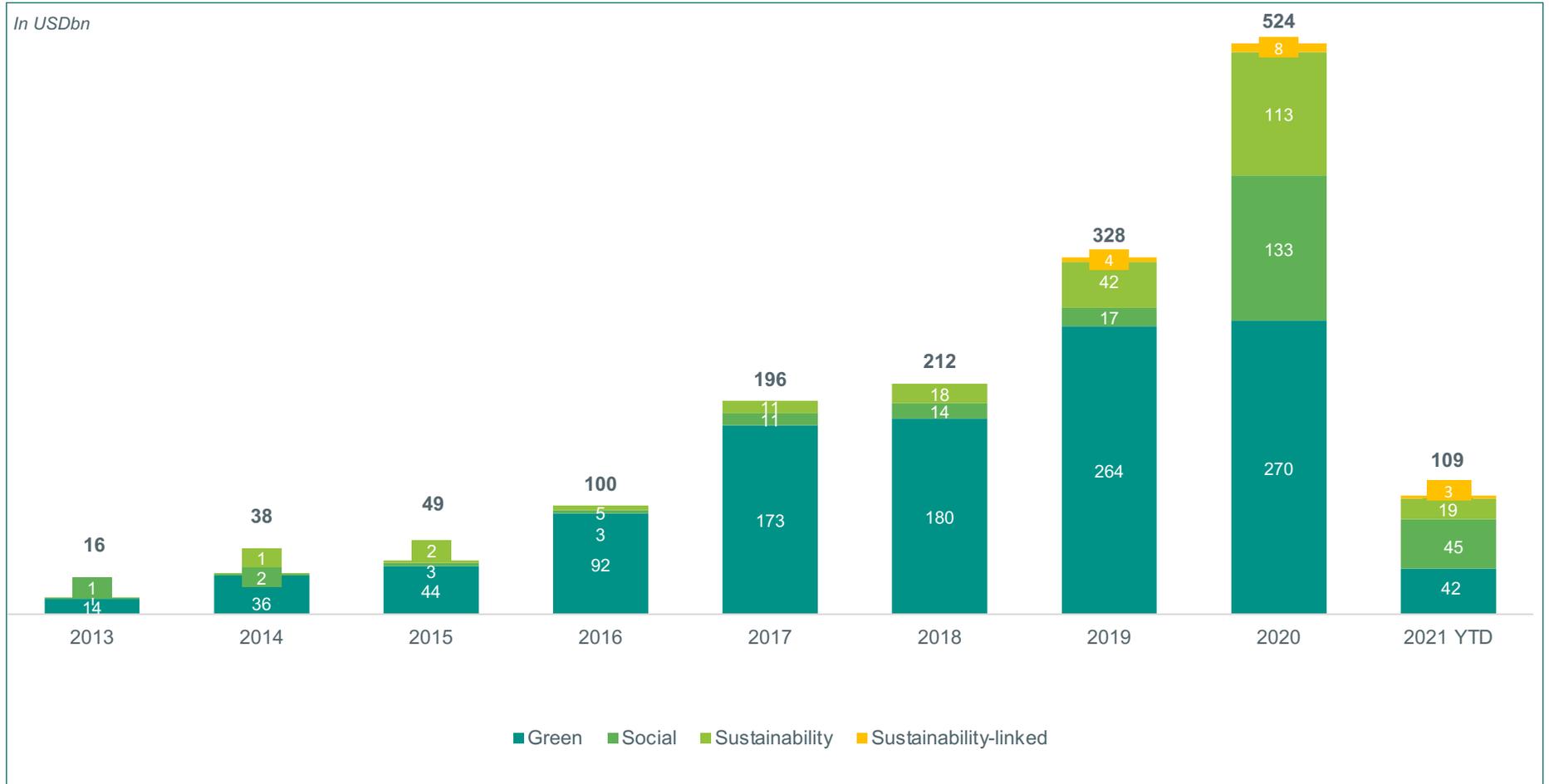
Use Of Proceeds	Process of project evaluation and selection
Management of proceeds	Reporting

1 2
3 4

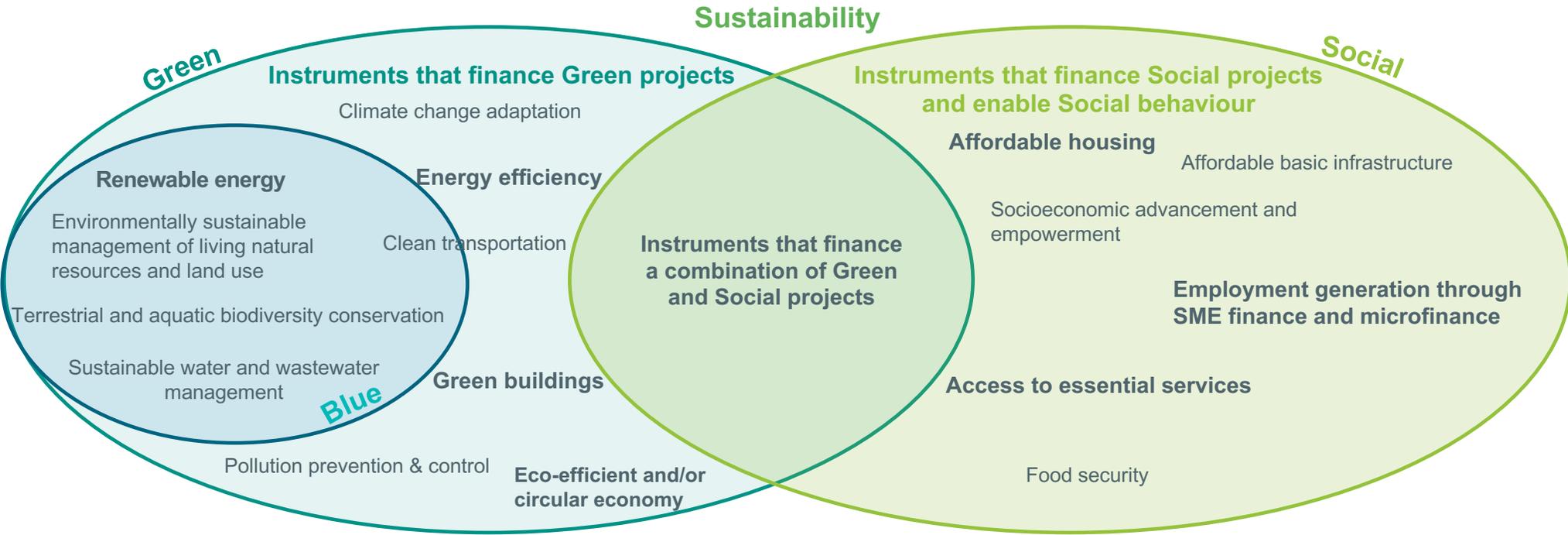
Sustainability Linked Bond Principles

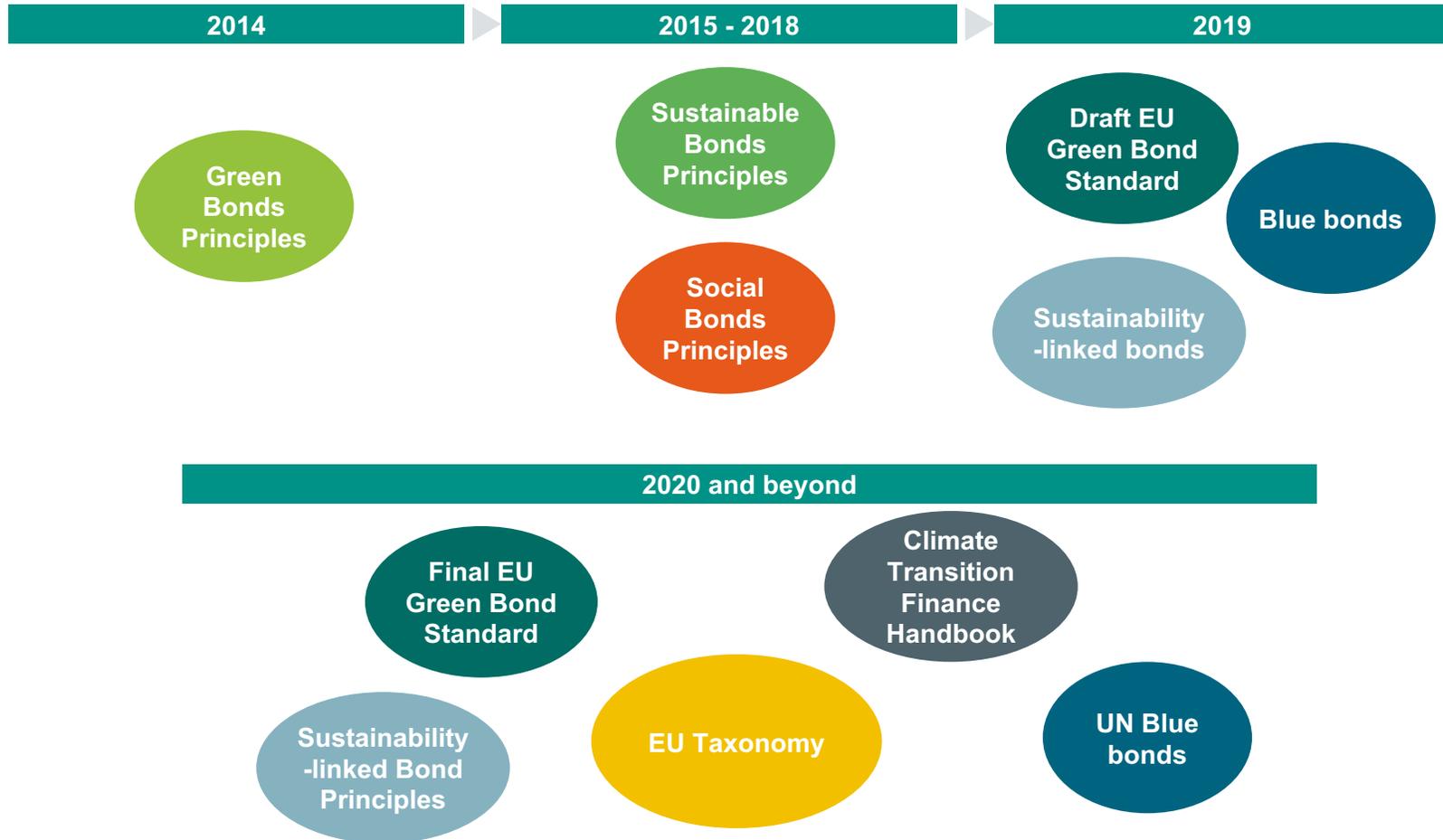
Relationship to Borrower's overall CSR Strategy	Target Setting
Reporting	Review

1 2
3 4



YTD data as of 27/02/2021





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	
 Renewable Energy installed capacity 55% by 31-12-2021	✖ Missed target = Coupon + 25bps (final three years)

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



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



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



Sustainment 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

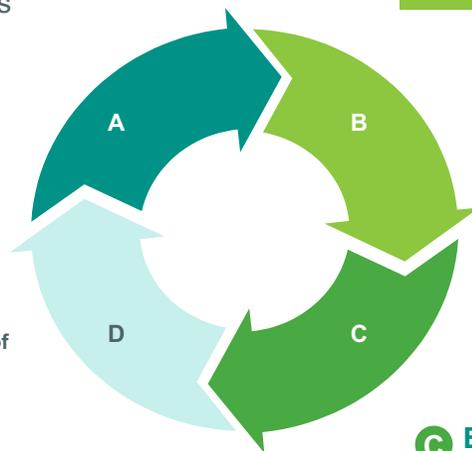
2022

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: CO₂e emissions per passenger-kilometre

- Zero direct emissions land transport activities are eligible
- Other fleets are eligible if direct emissions are below 50 gCO₂e/pkm until 2025 (non-eligible thereafter)



Any questions?

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