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Making a public impact

Green and social bonds
roundtable

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Making a public impact

The broader sustainability strategies of green and social bond issuers and the impact of their issuance across a range of metrics, such as SDGs, are increasingly being focused on. Meanwhile, new varieties of sustainable bonds could yield benefits, but also complicate the picture. *Sustainabonds* gathered leading public sector issuers and ESG-focused investors for a roundtable, hosted by SFIL, to share their opinions on the developments shaping the market.

Neil Day, Sustainabonds: The Climate Bonds Initiative recently noted that issuance (according to its criteria) had surpassed \$200bn. Are green and social bond markets developing at a satisfactory pace? What might be holding up issuance, or what — such as the EU Taxonomy or Green Bond Standard, perhaps — could support the market?

Mehdi Abdi, Actiam: In the last couple of years we have indeed seen a lot of growth in the green, social and sustainable field, which is very positive. But if you compare it with the non-green market, it's still only a small proportion of it. For example, in the covered bond market, firstly, we only have a few, some 20 to 25 issuers, and secondly, most of the issuance is euro-denominated. We have seen some new issuers coming to the green bond market — Caffil, for example — which is really positive from an investor perspective. But we are not there yet and there is room for growth going forward.

The number of participants on the investor side for whom ESG is important is meanwhile getting more and more significant. The number that have signed up to the Principles for Responsible Investment has doubled since 2014 to some 2,500.

Frank Damerow, LBBW: Issuance is still a very small proportion of the total fixed income market, but we are emerging from a 10 year phase of a voluntary market that has, I think, attracted a lot of respect from stakeholders across the board as to how it can address climate change. And clearly within that 10 year phase we've

undergone several cycles of product innovation. Now we are at a point where a lot of facilitation has happened and it's become a lot easier to issue. The wider market now has to adapt.

An example is how using EPCs A and B under the Climate Bonds Standard when financing mortgages through a green covered bond makes life a lot easier. So we have created a very good basis for continued growth.

Meanwhile, market participants are looking at this from various angles: on the strategic side you have the link to topics such as TCFD (Taskforce on Climate-related Financial Disclosures) implementation, while — as Abdi mentioned — you are also serving the interests of the asset management community, with pension funds, insurance companies and asset managers having to integrate ESG holistically into their overall portfolio analysis.

Alban de Faÿ, Amundi: It's true that there's very nice growth. However, we also see increasingly diverse types of use of proceeds bonds — like blue social bonds, green transition bonds, SDG bonds — and I am convinced that if we want to develop this market, we need a degree of standardisation to help investors know what is behind them. I really recommend trying to remain as simple as possible, using straightforward names like green or social bonds, and then highlight the specific theme behind the bonds for investors who may want to develop a strategy with different themes in their portfolio. This is particularly true of social bonds, where there tend to be a lot of different themes — which is not the case with green bonds, where the themes are more homogenous, like renewable energy or energy efficiency. So my first recommen-



Roundtable participants (left to right above):

Frank Damerow, director,
sustainable finance and strategy,
Landesbank Baden-Württemberg

Muriel Caton, managing director,
sustainable finance strategy,
Vigeo Eiris

Théo Kotula, ESG analyst, AXA
Investment Managers

Neil Day, managing editor,
Sustainabonds & The Covered
Bond Report

Alban de Fay, head of fixed
income SRI and green bond
strategies, Amundi

Tom Meuwissen, treasurer,
NWB Bank

Mehdi Abdi, senior fixed
income portfolio manager,
Actiam

Ralf Berninger, head of investor
relations, SFIL

Felix Grote, principal funding
officer, Council of Europe
Development Bank (CEB)

dation is to stick with really simple labels when there is a new use of proceeds bond.

There is also a lot of noise around different types of innovative bonds like transition bonds and sustainability-linked bonds, and, again, we need standardisation to help investors better know what is behind them and how they can be used to develop a sustainable strategy — but maybe we can talk about those later.

Muriel Caton, Vigeo Eiris: We have of course seen this growth of the green bond market, even if it continues to be a drop in the ocean of debt capital market issuance in euros and dollars.

I totally agree with Alban that we need a greater degree of standardisation than we have today. However, this standardisation should be a kind of guidance that aids transparency and investors' analyses, but not so strict that it doesn't leave room for innovation. To bridge the gap in climate finance we need a lot of issuance in the green bond sector, and innovations like the SDG-linked bond that must be properly structured, and others we see developing in the market can contribute to that.

Similarly, the taxonomy can be helpful, but it is somewhat binary — you are in, or you are out. A lot of sectors that impact the environment are not currently part of the taxonomy, such as air

transportation. Then again, the taxonomy has been delayed, so we will see what eventually comes through.

Day, Sustainabonds: Social is perhaps the younger sibling of the green bond market. Is it catching up? What challenges remain?

Tom Meuwissen, NWB: The social bond market lags the green bond market by perhaps five years. It has huge potential, but the thing is, investors want quantitative information, quantitative reporting, and that's easier for green than social. Green is also more universal — an investor from Asia, for instance, can still be interested in the environmental benefits of activity in the Netherlands, but probably less so when it comes to social, where they may focus closer to home.

Our social bonds were based on social housing, with a very solid framework, but we amended them to be SDG housing bonds because all the homes are made to energy efficiency standards and the like, so there's an environmental element, too. We also see that there's a need for standardisation, and linkage to the Sustainable Development Goals is one way to do that, although they are very broad.



Ralf Berninger, SFIL: 'When we finance local authorities, very often these projects have both social and green objectives'

Looking more generally at the market, I see two trends. One is a very strict focus on the bond itself, and the other is a focus on the issuer as a whole — and those two ways of looking at things don't align. I would prefer to have more focus on the issuer as a whole. You can have very strict rules for the bond itself based on a taxonomy, but the use of proceeds that is labelled and behind the bond is financing activities that are probably happening already anyway. Looking at it from the perspective of additionality, if you focus on the issuer as a whole, then you have an incentive to do more to improve your ESG or sustainability rating. That could help the market grow — as with credit ratings, investors could decide if they want to invest only in the top rated issuers or also look at lower rated ones.

Of course, the rating agencies play a role in that and right now there are very many rating agencies and it is difficult to know how to interpret the different ratings — they are not very well correlated.

Abdi, Actiam: I couldn't agree more, because that's what we at Actiam are doing. We have an internal ESG rating strategy where — whether it's a green bond or not — we score every issuer, because in the end that's what's important. A company can have a product or process that is harmful to the environment but still come up with a green bond. People might then say, OK, they have a green bond, which is good, we support that. But you should also look at the issuer itself and this will become increasingly important. It's going to be very interesting to see how the rating agencies take this into account — we have already seen Fitch, S&P and others looking into this. S&P, for example, recently took over the ESG ratings business of RobecoSAM.

Caton, Vigeo Eiris: As an SPO provider, Vigeo has from the start taken into account the ESG performance of the issuer — which

has been a recommendation of the Green Bond Principles since June 2017. If, for example, you finance a windmill but it doesn't comply with minimum human rights, this is a nonsense, and the investor may have big problems.

Damerow, LBBW: Since 2017, we have gone through the process of structuring and issuing green and more recently social bonds. It is a programmatic approach to expand our SDG finance capacity. As a result of the transition and related environmental and social costs, we see strong dependencies between the two, all the way through global economic activity, most evidently in the global supply chain.

With the exit from coal in Germany, the associated social costs of the transformation become obvious. We have that situation in almost all countries, and many sectors are also affected in a similar way.

Felix Grote, CEB: For the social bond market, a big driver could be a sovereign issuer coming out — I think that's what's still lacking. Even on the level of regions or local authorities, so far most issuers have done sustainability bonds and not social bonds. I'm not sure why, because sovereigns or regions could show everyone, including their electorates, what they are doing on the social side, and this is also where investment is needed in Europe.

Progress is nevertheless being made on the social side, too. Just last week we had the kick-off meeting of the 2019-2020 social bond working group with ICMA. Last year we added the harmonised framework for impact reporting and we were one of the first issuers to use this. It's a one page table that is a very clear and easy to read document for investors and preparing it didn't involve too much work for us as an issuer — it's an add-on to the reporting

we had previously done. This is an example of the types of small steps that we can take to help the market — not innovation for innovation's sake, but improvements that truly make sense. It's about harmonisation, standardisation, and giving additional guidance to issuers and investors.

Meuwissen, NWB: Governments would bring size, but they are a different animal. Everything a government does can qualify as green or social — even if they buy weapons, you can say it's meant to achieve social goals.

Grote, CEB: The Council of Europe Development Bank has an established link with the Council of Europe in Strasbourg, and through its lending activity the bank promotes the values and principles of the Council of Europe. All our projects already undergo a certain, let's say, second party opinion screening by the Council of Europe — the bank looks at the financial metrics of any transaction, and then the Council of Europe will opine on the social objectives of a project. This means that overall the bank is

A big driver could be a sovereign issuer coming out

highly committed to its social mission, and it also means that we already had all the necessary reporting in place, so when we joined the social bond working group and became an active issuer it was more a question of shaping this new market while at the same time responding to investor demand. We chose three sectors that we consider very important for the bank and its strategic development over the last few years, namely social housing, education and job creation. The bank is active across all of Europe and there's a great need for social investments. For example, with the financial and economic crisis that hit some of our member countries, there was greater demand for projects supporting MSMEs (micro, small and medium-sized enterprises) for the creation and preservation of jobs. And then we had the refugee crisis starting in 2015, which saw us responding to more requests from countries like Germany and Sweden, particularly for social housing and education. These are the three sectors for our social inclusion bonds.

Day, Sustainabonds: Ralf, you did social first and green afterward. What was the rationale for doing it in that order, and given you've issued relatively recently in both markets, what's your perspective on the relative maturity of social versus green markets?

Ralf Berninger, SFIL: It's been a big step forward for us today, our first green bond, after the social bond. This is really at the heart of our activity: when we finance local government, a lot of this goes to green activities — for example, local public transport, clean water, waste recycling.

I agree with Felix regarding public investments. When we finance local authorities, very often these projects have both social and green objectives. When we finance a school, it's going to be a green building and at the same time there are strong social objectives. Or when we finance clean local public transport, there may also be a lot of social benefits associated with that. So when we look at public investments, both topics are closely linked.

Regarding our issuance, the green bond programme took a very long time to set up as it was something that impacted the whole value chain. In May, together with the French postal bank (La Banque Postale) we set up dedicated green loan products, whereby local authorities seeking finance for green projects receive a proposal with specific green loan documentation. We changed our information systems to ensure that we can track these green loans and report on them without any problems. The green loans we do are relatively small, as low as €500,000, so the eligible pool of assets behind our issuance is very granular. So it's a project that's really been impacting our overall lending activity with local authorities.

On the social bond side, we've a more specific focus, namely public hospitals, so we could bring the project to market much



quicker. We didn't need to change the existing loan contracts and we already had the information we needed in our systems.

Théo Kotula, AXA IM: The concept of green bonds is well accepted by portfolio managers, but they were initially a bit afraid of the new social bond label, asking, what does it mean concretely? Now that the market has grown a bit, we are seeing more and more interest in social bonds internally — although maybe the market is still too small to launch dedicated social bond funds.

Of course, solutions may need to be found for impact indicators and reporting may need to be standardised. And I do believe also that governments and public issuers have a

huge role to play to really launch this social bond market, as they did for the green bond market.

De Faÿ, Amundi: We have big ambitions in social bonds because a very large share of our clients are institutional investors and in their DNA they are more sensitive to social. It's true that climate change is on the table, so it's a common topic, but our clients are very focused on social criteria and there is big demand, so we need to develop this market.

Clearly it's quite easy for public entities — agencies, supranationals — to find some projects. But the big challenge is for corporates. If you want to develop a market, we need diverse types of issuers, and it's more complicated for a company to find a dedicated project for a social bond. The first one to do so was Danone, we recently saw another corporate try to come to the market, and RBS has worked on a social bond, which is very good news. But for the time being it is not easy to think about new social bond strategies given the bias towards agencies and supranationals in the low rate environment.

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We are seeing more and more interest in social bonds internally

SFIL green and social bonds win hearts and minds

November saw the inauguration of the SFIL green bond framework, with a covered bond from Caffil, as well as one of the sustainable projects it is helping finance. The group's Philippe Mills and Sami Gotrane explain how green and social bond issuance reflect its public policy goals.

On 16 November 2019, Saint-Étienne inaugurated its third tramline, building on a mode of transport for Stéphanois that is sustainable in more ways than one: the city is the only one in France to have continuously used trams since the 19th century. Christian Julien, vice president in charge of the budget of the metropolis of Saint-Étienne, characterises the fully electric tramway as an energy efficient and gentle mode of transport that allows for better air quality while preserving the quality of life.

Some €10m of the financing of the new line was in the form of a green loan originated by La Banque Postale and to be refinanced by the SFIL group.

"Vis-à-vis the user and the taxpayer, financing an environment-friendly project using a green loan allows us to display overall consistency," says Julien.

Saint-Étienne's loan is one of the loans to be refinanced under a new SFIL green bond framework that was itself inaugurated the week ahead of the tramline, when Caisse Française de Financement Local (Caffil) on 5 November issued the first ever green covered bond backed by public sector assets.

The covered bond-issuing subsidiary of the SFIL group attracted over €3bn of orders to the 10 year obligations foncières, allowing for pricing some 5bp inside initial



Philippe Mills

guidance, at 2bp over mid-swaps, as interest from ESG investors new to the product boosted demand in conjunction with the revived third covered bond purchase programme of the European Central Bank.

"This inaugural green bond is close to the heart of our public policy mission," says Philippe Mills, CEO of SFIL and chairman of the supervisory board of Caffil. "It is part of the many sustainable development initiatives we have taken in recent years: we joined the UN Global Compact in 2018, we recently established our carbon footprint and published our social and environmental strategy, as well as our first CSR report in 2019.

"We are proud to contribute to the development of a financial sector that promotes public sector initiatives for sustainable development, and to participate in France's leading role in the development of the green bond market."

SFIL's framework has five categories: territorial mobility and soft urban transport; sustainable water and sanitation and climate change adaptation; waste management and valuation; energy efficiency of construction and urban development; and renewable energy.

"Our objective is to cover all the key areas of local green public investments," says Sami Gotrane, managing director, treasury and financial markets. "For this first transaction, we expect a significant share of financing to go to clean local public transportation projects. Sustainable water management will be another key area for our green lending activity."

Contributing to the national effort

According to second party opinion provider Sustainalytics, the group's issuance of green bonds is an important contribution to French national sustainability efforts, given the role local government plays in facilitating social and environmental sustainability and SFIL's position as a leading financial provider.



Saint-Étienne's new tramline

“As such, Sustainalytics is of the opinion that SFIL Group is well-positioned to issue green financial instruments that will facilitate improved social infrastructure and environmental protection,” it said, “thus contributing to the transition to a low carbon economy.”

The green bond debut comes nine months after Caffil launched the first social bond from the SFIL group, a €1bn eight year transaction in February that was the first green or social covered bond from France.

“We had an order-book above €2.6bn after only two hours, with over 110 investors participating in the transaction,” says Gotrane. “We did an extensive European roadshow and we are particularly pleased to see that more than one-third of the transaction was allocated to investors with a strong commitment to sustainable investment.”

“We are lending on average close to €500m per year to French public hospitals. This transaction provides an opportunity for investors to participate in the financing of social projects in France.”

French public hospitals have the mission to provide public health services for the whole population regardless of income, social or financial status, and to reduce social inequalities, gender inequality and regional inequalities. SFIL has a lending relationship with 1,031 out of close to 1,400

public hospitals in France and public hospitals accounted for 13% of SFIL's €3.7bn of new loans to the public sector in 2018.

As well as undergoing a financial analysis, the “healthcare added value” of public hospital loans transferred to SFIL is assessed according to a methodology it has developed.



“This methodology allows to calculate a Healthcare Added Value of each public hospital in the following medical specialties: medicine, surgery, obstetrics (MCO), psychiatrics, follow-up and rehabilitation care, and elderly care,” says SFIL in its framework.

“The objective is to define for each of these medical specialties the social importance of the public hospital in its geographical area.”

While the social bond contributes towards Sustainable Development Goal 3, ensuring healthy lives and promoting well-being for all at all ages, SFIL cites six SDGs

‘SFIL Group is well-positioned to issue green financial instruments that will facilitate improved social infrastructure and environmental protection’

— Sustainalytics

as targets of its green bonds (*see icons*).

Both the inaugural social and the inaugural green bond were issued in covered bond format. However, the two frameworks have been set up with the possibility of issuing both in covered bond format via Caffil and in the agency market via direct issuance by SFIL.

For the year 2020, SFIL group plans to issue between €5bn and €7bn split between covered bonds and issuance in the SSA market. As in 2019, ESG issuance will play an important role, with at least one benchmark transaction planned under green or social format.

“Green and social bond issuance will be very much complementary for us,” says Mills. “We plan to come to the market with at least one green or social benchmark per year.”

“We expect our volume of green lending to increase significantly over the coming years as local authorities become more familiar with the product.” ●

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Felix Grote, CEB: 'Speaking for the SSA sector, another issue we face is that we do not really feel that our business models are understood'

De Faÿ, Amundi: (Continued from page 5) Another big challenge in relation to social is that there are a lot of different topics, so we need to have clear reporting to really understand what is the theme behind each social bond and what kind of impact indicator is appropriate — again, it's much more complex than green bonds.

This year we are co-chairing the ICMA social bond working group because we want to help issuers develop new reporting. One requirement of the Social Bond Principles is explaining what target population you want to address, and this is sometimes not well understood by issuers, so we need to work on that.

Day, Sustainabonds: Muriel, there have been comments about the number of different agencies rating or scoring green bonds and their issuers and the complications and confusion this can cause.

Caton, Vigeo Eiris: It is true that there is no standardisation in SPOs. And the number of non-financial rating agencies is mushrooming, like the credit rating industry. There are around 30 credit rating agencies — with S&P, Moody's and Fitch taking some 93% of the market and the other 7% shared among 27 others — and it's the same story for non-financial rating agencies, with Vigeo Eiris among three or four big players. What counts for the market is the methodology and the track record, and only a very few players have that.

The European Commission is now pushing the credit rating agencies, who are regulated businesses, to take ESG into account, and they have taken different approaches. That shows the increasing importance of this issue. At the end of the day, ESG factors can be considered a potential risk for the investor, and so the two opinions are complementary — the credit rating agency giving an opinion on the solvency risk of the issuer, while we give an opinion on the sustainability risks.

Meuwissen, NWB: But there is a lack of transparency. Perhaps investors see all the ratings for issuers, but we are not able to.

De Faÿ, Amundi: This is a very important point because currently ESG ratings are unsolicited, with investors paying the agency for information, and in my opinion we should move to solicited ESG ratings. We have already highlighted how investors are now taking ESG criteria into account and issuers should do likewise, like with their credit ratings. They should select an agency to have an official ESG rating and communicate their ambition in relation to this rating.

This could be a way to standardise the market, because currently issuers are, I assume, faced with questionnaires from a variety of agencies, and they could tackle this by saying, stop, we know our business, these are our KPIs, and we would like a rating from a specific agency. And they could work with their peers to work out the right way to set the ESG ratings.

Meuwissen, NWB: Indeed, because with the unsolicited ratings in particular it is mainly a box-ticking exercise: no, we don't do arms; no, we don't do nuclear; no, we don't do this or that. And that's how you can improve your rating. Of course we don't do arms, but if we don't mention that on our website, it becomes a minus point on the rating, and sometimes a commercial bank has a higher rating than us just because they have a huge team working on that — but it doesn't mean anything.

Caton, Vigeo Eiris: That's why the business model is changing. We have done a few solicited ratings, most recently for Française des Jeux, for example, which is being privatised. With a solicited rating, we work as the credit rating agencies do, with on-site interviews and a dialogue with the issuer, who can then communicate on the rating with all the relevant documents on an equity roadshow, bond roadshow or whatever. As Alban says, this is a big change, because so far the ratings have been unsolicited, paid for by the investor, and based on only public information released by the company.

Grote, CEB: Speaking for the SSA sector, another issue we face is that we do not really feel that our business models are understood. As a result, there are a lot of questions in the questionnaires we receive that are not straightforward to answer. For example, we have different types of governance structures than a corporate or a financial might have. The process is more of a black box where the issuer is not at all in the driving seat. It's very difficult to know if our feedback is actually being taken on board. We have received questionnaires from a number of different agencies and it's not so easy to just say no, so it's really a lot of work for the many colleagues that are involved. And later, when we receive a questionnaire for the second or third time, it's often not even prefilled from the previous year.

Berninger, SFIL: That's our experience, too: the workload to reply to the questionnaires from the ESG rating agencies is huge. And it's not just a workload for us on the investor relations side; you have to go to human resources, for example, and to the purchasing managers, and gather all this information internally, and it's a huge workload for a lot of teams in the bank. So I agree with Alban, that maybe it is worth thinking about different models, like moving towards solicited ratings. That would have the advantage that at least it's clear which questionnaires to invest time and effort on, and it's easier to justify that internally.

Abdi, Actiam: I totally agree with you guys. Some issuers have low scores from the agencies, but the issuer tells us they are very good in ESG, so we have to do a lot of work to find out why the score is so low, and sometimes it's simply that they did not reply to a questionnaire, which obviously changes my perspective on the company. The model has to change.

Meuwissen, NWB: I understand the demand for standardisation from investors, but the thing is, businesses are not all the same. Take ourselves, for example: no other country is probably to such a large extent below sea level and no other country has water authorities like the Netherlands, so they have their specific business, involving climate adaptation, climate mitigation and biodiversity — I don't think there are many other institutions like that. Our bonds are considered "dark green" by Cicero, but it's difficult to fit them into a standardised framework. Likewise for social housing: in the Netherlands this is a very particular business involving community management and other factors that are different from other countries. So while I understand investors' desire for standardisation, having one framework for everything in an SPO just won't fit all the different structures.

De Faÿ, Amundi: I completely understand. A green bond dedicated to green buildings will not have the same criteria in Sweden as in Spain — we know that. It's also our job to know the difference and to really understand what the standards are in each country. But we still need a kind of harmonisation to be sure that every investor really understands what an issuer is trying to achieve. It's true that at Amundi we have a big ESG research team helping us make this analysis, but there are a lot of small asset managers with only one portfolio manager doing both the analysis and the investment, and if he doesn't have all the information in an easy manner, it could put a brake on the development of this market. But I fully agree that we cannot put everything in the same bucket.

Kotula, AXA IM: We take the ESG performance of issuers of green, social or sustainability bonds into account. We use SPOs, but have also got our internal ESG scoring and standards.



Muriel Caton, Vigeo Eiris: 'What counts for the market is the methodology and the track record, and only a very few players have that'

What really matters to us are sustainability ambitions

I agree that better dialogue is perhaps needed between issuers and SPO providers and ESG rating agencies — that's the feedback I've had from many issuers. But beyond ESG performance, what really matters to us when it comes to green and social bonds are sustainability ambitions or forward-looking targets, because we want to make sure that we invest in bonds that are in line with sufficient sustainability ambitions on the issuer side, and avoid one-offs. The consistency between issuing a green, social or sustainability bond and the issuer's forward-looking ESG commitments is a key pillar of our assessment framework. That's a question we ask of issuers when we meet them and which could perhaps be taken into account by SPO providers, too.

Abdi, Actiam: For our internal scoring system, we get input data on all the issuers from an external ESG data provider and then we begin our analysis — at Actiam we have 10 ESG analysts, and they come up with an ESG score for each issuer. For green and social bonds, we have another review, so they are checked again by the analysts, and sometimes if questions arise we get in touch with the issuer. The analysts then come up with a score for the green and social bonds, which mostly get 75 to 85 — our scoring is from 0 to 100.

We do see more standardisation now. We were doing this analysis ourselves already before there was any general idea of ESG scoring in the financial sector. Now we have a dialogue with various agencies, they visit our offices for discussions and we listen to their story, and they are interested in ours. So we are working together and things are advancing. But there are definitely improvements that could be made and I hope that in the near future we can have standardisation where all the E, S and G elements incorporated in a rating are accepted by all market participants, and our individual work will have to have a different emphasis.



Frank Damerow, LBBW: 'I believe we are heading towards integrated accounting, supported by measures such as TCFD'

Damerow, LBBW: When it comes to carbon, the reporting is very advanced, particularly in the Netherlands, and there is a very clear case for the financial industry being able to support central government in decarbonising just by creating sensitivity and transparency in relation to that. Indeed, I believe we are heading towards integrated accounting, supported by measures such as TCFD.

In the social sphere we are only at the starting point, where there is a kind of testing of metrics and target groups, because there can be a lot of variability within the data and impact reporting. When we were creating our social bond framework, looking at transport, water, health and education, we found instant impact reporting to be tricky at first. We looked at a potential target portfolio and how we could robustly report on it, because we didn't want to go out with a transaction and not be able to report later. Because we as an issuer don't have the requisite expertise, we hired an economic consultancy and research firm, Prognos AG, to develop a methodology, integrating reliable external information from the sector as a basis for impact reporting according to the harmonised framework. When it comes to broader SDG finance, this is necessary as data and the broader understanding is evolving.

Abdi, Actiam: Impact reporting is becoming more and more important because our end client or customers are asking for it. They say, OK, it's nice that you invest in a green bond, but what does it achieve? Show us the result. We have also seen improvements in impact reporting recently. For example, there is a German covered bond issuer that is doing a great job, quantifying the impact with a methodology where they are transparent about how they make their calculations, which are also reviewed by a third party. Such developments are very welcome.

We have seen improvements in impact reporting recently

Day, Sustainabonds: How much of a challenge was it getting all the information necessary for your green bonds in relation to the green loans that you cooperate with La Banque Postale on?

Berninger, SFIL: On the green side we work with a second party opinion provider, but we also worked with an external impact consultant, Carbon4, who advised us on all the impact calculations that we planned to include in the reporting. What we want to do — and I think is in line with what investors are looking for — is to make sure that when we finance different clean public transportation projects, for example, we calculate the impact in exactly the same way, so that we don't have differences in the impact calculations from one project to the other, and we have established this. We also changed the loan contracts to ensure that right from the start we receive all the necessary information from the borrowers on the characteristics of the projects that we are financing.

When a local authority needs some financing, the person in charge of the client relationship at La Banque Postale will check whether we are talking about a standard loan or a loan dedicated to a green project. When it's a green project, then he will propose a green loan, and with this proposal the local authority already knows all the information that they need to provide.

We launched the first green loans to local authorities in May and the response has been very positive. Depending on the type of asset, they have one or two pages to fill out, and this is working very well. For them the information is manageable. When we talk about a green building, for example, then they will have to provide us with the energy efficiency form, information on what type of building they are constructing, the square metres — this is all information that they already have, so they can quite easily provide it. And the local authorities have a lot of sustainability ambitions and are enthusiastic about supporting this, so they are very willing to invest the necessary time and effort.

Meuwissen, NWB: Can the local authority have a different price?

Berninger, SFIL: This is not yet the case. We only started providing green loans in May this year and the product that has been very well received. If we see a clear pricing advantage for green bonds established in the market, we will definitely look at passing this on to borrowers.

Meuwissen, NWB: We worked on something similar, but it wasn't very easy to arrange. Based on our experience, it was a lot of extra work for the borrowers and they don't even know if they are going to get the loan. And normally the treasury doesn't know the purpose of the money they are raising — typically it's balance sheet financing, anyway, rather than project financing.



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Breaking new ground

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Mehdi Abdi, Actiam: 'It is also the companies who can make a bigger change that we should support because their footprint is bigger'

Berninger, SFIL: It is not project finance, but we have found that the local authorities already have a bit of experience with this type of loan because they receive EIB loans, for example, that are linked to specific projects and where it's a similar story to our green loans.

Grote, CEB: It's interesting that the pricing discussion we had for many years about green or social bonds versus an issuer's conventional bonds, has now moved to the lending side. Returning to Neil's first question, incentivised loan pricing may also help us have more growth in the market — if there is a better price to be had for the final client, he will ask for that type of loan, and then we will have more bonds to finance them.

Meuwissen, NWB: This is important for us, in the sense that we have committed ourselves to having at least one-quarter of our funding in green and social bonds — we have raised over €11bn altogether in this market. And these bonds are normally way oversubscribed.

But while investors often complain about a lack of supply, those investors are sometimes absent from our order books, and they say it is because the bonds are too expensive. How can that be, when the whole market — even those not particularly interested in the green element — is buying it? If it's four times oversubscribed, then that's the market price! So I'm wondering what they are thinking. Maybe they think all our bonds are too expensive, but it is what it is.

Abdi, Actiam: From an investor perspective, you don't want to invest all your funds in just one issuer, yet some issuers are coming to the market often, so after, say, three green bonds there comes a point where we might not be involved again if we don't see switch possibilities. That could explain some of the investors that may be missing from the book.

Day, Sustainabonds: I assume a greater number of issuers coming to the market would help. Could transition bonds contribute to that? What are they and what are their pros and cons?

De Faÿ, Amundi: There is no clear definition of transition bonds, so each investor has to do their homework to understand why the issuer is coming with such a bond and what is the link with its medium or long term strategy. We know that we need to somehow help issuers from very carbon intensive sectors make the transition, but green or social bonds are already a very nice tool for doing that. So I'm not sure we need transition bonds at this stage and they can cause a lot of confusion in the market.

SDG-linked bonds are a very nice tool, because there is a dedicated KPI that shows how the company wants to move and it's very straightforward. So I am in favour of this kind of sustainability-linked bond, rather than a transition bond where there is no clear definition.

Abdi, Actiam: Sorry, but I don't agree with you. I agree that there is a lot of confusion — after all, transition bonds are in their infancy. But ultimately transition bonds are supporting companies who want to change their processes and behaviour to become less damaging to the environment or more ESG-friendly, so to speak, and as investors we should support that. It is also the companies who can make a bigger change — like oil companies switching to renewable energy — that we should support because their footprint is bigger.

I am in favour of this kind of sustainability-linked bond

De Faÿ, Amundi: As I said, we have to help issuers move in the right direction. But there is no clear definition for transition bonds. And it's easier to see how an issuer

is moving at the level of the company rather than at the level of the project. If an issuer has a clear KPI, saying, for example, that it wants to reduce its sales from coal extraction from 60% to 50% in the next 10 years, that's a very transparent goal, and we can look at this company-level ESG criteria rather than a use of proceeds bonds. That's why if we talk about "transition bonds", I really prefer a sustainability-linked bond like Enel's to a use of proceeds bond.

Kotula, AXA IM: At AXA IM we are very much in favour of transition bonds, and we are co-leading a working group on the topic for the Green & Social Bond Principles. Our first call indeed focused on use of proceeds bonds, for transparency reasons, but we are targeting issuers who are not able yet to issue a green bond because of reputational risk or even because they don't have enough green assets at the moment to come to the market with such a product. It's a key thing about transition, that sometimes you can't go straight from A to G. Transition bonds could be seen as a step towards a greener business model. In our view, use of proceeds



SDG-linked bond issuer Enel has been involved in a 'smart city' project in Malaga

could be useful because it could be basically the same process as for a green bond, with reporting and transparency on the projects to be financed. But of course, the focus on the overall strategy of the issuer and its transition plan will be higher and the use of proceeds would have to be consistent with this.

Regarding Enel's SDG-linked transaction, we do welcome this kind of innovative product, but it also created confusion in the market. Internally, we didn't really understand what was going on with it at the beginning. We already reviewed SDG bonds which were green or social use of proceeds bonds with a different naming. For instance, we didn't include Enel's SDG-linked bond in our green bond fund because in our view it lacks two key features of a green bond, which are transparency on the use of proceeds and impact reporting against specific KPIs. But as I mentioned earlier, the overall sustainability strategy of the issuer is really important, and even more in the case of transition bonds. There is work to be done to have some standardisation and to see what transition bond guidelines or principles could look like, and many discussions are going on.

I would add that transition bonds are also meant as a way to protect the quality and integrity of the green bond market. Green bonds will remain the darkest shades of green, but we want to allow other types of issuers who can't come to the green bond market to demonstrate their commitment to more sustainable business models through transition bonds.

Caton, Vigeo Eiris: The Enel transaction was innovative in two ways: it is the first time that a fixed income coupon is linked to an

SDG indicator with a potential 25bp step-up; and it is for ordinary financing needs and not linked to projects. Not having sufficient projects to issue a benchmark green bond is a problem for a lot of potential issuers who would otherwise like to enter this market, and Enel's concept could overcome that, so it is quite interesting.

On the other hand, Enel went out without an external review, so I think investors were focusing on the potential 25bp step-up. There has been a lot of criticism about the lack of transparency and also lack of ambition because a large part of Enel's electricity will still be generated by burning coal. So this should perhaps be structured in a better way and reviewed to make investors more comfortable that such transactions are good for the market.

Coming back to transition bonds, two years ago we worked on Repsol's green bond and there was also a lot of comment on this transaction. The ESG performance of Repsol in the sector is very, very good, there was transparency and reporting around the bond, and it was used not to extend production capacity, but to improve existing equipment in order to save one million tonnes per year of CO₂ emissions — that is to say, if you do nothing, it is worse. We must consider this type of transaction in order to contribute to climate targets, even if on its own it is not going to achieve the 2 degree strategy of the Paris Agreement. If green bonds are only going to finance pure players such as renewables, it will not be enough either.

So innovation is welcome, but we have to be careful in how we structure new bonds.

Kotula, AXA IM: A more recent transaction that may also resemble a transition bond as we imagine it is SNAM's "climate

It's a key thing about transition, that sometimes you can't go straight from A to G



Alban de Faÿ, Amundi: 'If we want to accelerate the global transition, the best way is to look at the ESG rating of the issuer'

action bond". It was not labelled as a green bond, because most of the proceeds will be directed to improving the energy efficiency of non-green assets, but SNAM is committed to publishing an impact report. In our view, it really looks like a transition bond, because they told us that it's part of the transition plan to green their business model, but that they cannot go from brown to green in just a few years. Transition bonds are of course targeted at issuers other than those who can issue green bonds and will constitute a separate universe — on the one side you will have green bonds financing really green projects, and on the other transition bonds helping such issuers along the path to a more sustainable business model. But there is indeed a lot of work to be done and discussions to be had on defining what types of issuers can come with transition bonds and what types of projects should be considered as transition projects.

De Faÿ, Amundi: We know that there is a lot that needs doing when it comes to climate, while the green bond market is quite small. If we want to accelerate the global transition, the best way is to look at the ESG rating of the issuer, because the market would then be much broader. At Amundi we currently manage more than €700bn in fixed income, with €12bn invested in green bonds. All our fixed income strategies will fully integrate ESG criteria by 2021, and if we want to accelerate and to encourage issuers to better communicate on the way that they want to transition, it may be more powerful to focus on their global strategy with ESG ratings rather than use of proceeds.

Day, Sustainabonds: Any final thoughts on the future of these markets?

Grote, CEB: Working for a social development bank, when we talk about transition, of course, I always think of the need for a "just" transition.

Abdi, Actiam: From an investor perspective, I really hope that we see more issuers coming to the market with green, social and sustainability bonds — for us there is not a big difference between them — so that we can consider increasing our exposure towards them. Whether it's covered bonds, SSAs, sovereigns, the more issuers we see, the better.

Meuwissen, NWB: The main issue is actually additionality. We all talk about wanting to have more issuance, but it is possible that the market will grow to whatever amount, but that everybody will still only be doing what they were already doing — they are just packaging it in a way that makes us all feel good. At the end of the day, what's changed when it comes to the climate or society? The greater awareness that comes with the growth of the market is of course very important — everybody is busy talking about it, writing about it, going to the conferences. And around the world people are embracing it — in Japan, for example, the biggest sovereign wealth fund, GPIF, is setting rules for the Japanese investor base. But we need to take the next step, which is making things possible that were not possible before — different pricing, for example, or an additional element.

Damerow, LBBW: Additionality is an issue that will continue to be debated, and so it should be. Equally, expectations need to be managed: Banks are not necessarily driving the primary equity investment decision — banks provide debt finance. What they can do is support political goals and provide transparency on their activities. This is an effective way of capital allocation.

What regulators and central banks are looking at when it comes to the financial system as a whole, through consolidated initiatives such as the Network for Greening the Financial System where already 50-plus central banks signed up, is the risk side and the carbon intensity that is funded.

In 2020/2021, central banks and supervisors want to know how banks are addressing and managing climate-related risks. This is based on the latest IPCC reports, with 10 years to act and a tremendously challenging carbon reduction target of 45% by 2030 for a 1.5 degree target, as climate-related risks on the current trajectory are considered to be systemic and a threat to financial stability. Within one year sustainable finance has attracted top priority among senior central bankers, which is very impressive. Capacity building is rapidly increasing, which will have a strong influence on agents in the financial system.

The institutional understanding of transition risks is key for further green and social expansion. ●

What's changed when it comes to the climate or society?

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