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Banking on change

Sustainability-linked bonds roundtable

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Banking on change

The first sustainability-linked bond (SLB) from a bank suggests the instrument can be a viable and attractive option for financial institutions committed to reaching climate-related and other targets. However, questions remain over its regulatory treatment, while data could pose challenges. In this *Sustainabonds* roundtable, sponsored by ABN AMRO, representatives from different sides of the market consider the potential for bank sustainability-linked bonds.

Neil Day, Sustainabonds: Bodo, Berlin Hyp launched the first sustainability-linked bond (SLB) from a bank in April, after you had previously been a pioneer in the green bond market. What was it that led Berlin Hyp to take a new step and embark upon sustainability-linked bonds?

Bodo Winkler-Viti, Berlin Hyp: Berlin Hyp's decision to discover the SLB market developed as follows.

We had achieved our previous ESG strategic target early, at the end of 2019 instead of, as had been planned, only at the end of 2020. That was to achieve a share in our overall lending portfolio of 20% for green finance. Then we faced the question, what comes next? We felt that simply going with the same target but increasing the number could no longer be considered state of the art, but that we needed something more holistic. The result of that was the sustainability agenda that we published in August last year. Among other targets, this sustainability agenda includes our commitment to the Paris Agreement and to the German government's climate path leading to climate neutrality by 2050. That climate path is the description of a journey how to reach climate neutrality. So we thought, OK, by integrating this into the company strategy we basically have the most important things required for a sustainability-linked bond, namely, a very clear KPI and SPT (sustainability performance target). The rest of the nine months until issuance then involved rather technical and preparatory work, but that was what got us there.

As we are a monoline institution, measuring everything at Berlin Hyp is easier than it might be for a more diverse bank with a lot of different business lines. When defining KPIs, we only need a limited set of sustainability performance targets, which also supported the definition of an SLB framework.

Last, but not least — and again relating to our status as a monoline institution — we aim to increase the green share of the overall mortgage lending portfolio year by year, but for the foreseeable future we will not be able to reach 100% — there is other business that still needs to be financed and is not available for the issuance of further green bonds. These assets can nonetheless come within the scope of ESG-related activities, if you think of renovation of older buildings, for instance, and a different refinancing tool is necessary for these. So the sustainability-linked bonds also help us with the transition of business that is not yet green into a bigger share of green business in the future.

Day, Sustainabonds: Joop, what are the attractions of sustainability-linked bonds for banks and do you expect to see more? And why might they be taken up as an alternative to green bonds?

Joop Hessels, ABN AMRO: Many banks have large balance sheets with a lot of assets that are potentially eligible for green bonds, but so far, green bonds have been mainly focused on a limited number of topics. We have seen quite a few financial institutions focusing on real estate, but they might do much more than real estate, having a mixed bag of activities. Maybe the institution is asset-light, but it is still making significant sustainability steps in its overall business. The benefit of sustainability-linked bonds is that they can be used to highlight other topics that are perhaps a little less asset-heavy but still relevant to the business model of that specific organisation. That's one thing.

What we've also seen is that even if companies go out with a green bond, a large part

Roundtable participants *(left to right, top row first)*:

Sharon Bloemendal, green funding and ESG advisor, de Volksbank

Alban de Faÿ, head of fixed income SRI processes and credit portfolio manager, Amundi Asset Management

Joop Hessels, head of green, social and sustainability bonds, ABN AMRO

Enrico Tessadro, manager, sustainable corporate solutions, Sustainalytics

Bodo Winkler-Viti, head of funding and investor relations, Berlin Hyp

Benjamin Wohnhaas, sustainable finance manager, Raiffeisen Bank International (RBI)

Neil Day, managing editor, Sustainabonds

of the discussion will be focused on what their ambitions are, and what the overall ESG targets are, because the green bond in the end should be part of a wider strategy. That's where a KPI-linked bond could fit very well, because it makes it very clear where the company is headed to. Many banks are now discussing or even reporting on alignment with the 2030 or 2050 Paris goals, climate neutrality and the like, releasing more specific targets, so that's definitely something which can be used. As long as it's an element that you can measure, you can use it for a sustainability-linked bond.

Green bonds can of course still be used — and we would expect that to be the case for many issuers — but you can also offer a wider perspective on where you're heading. So I don't see it as an either/or question; they both have a place in the palette of sustainable funding. It's like the trend where we saw green bond issuers expanding through the issuance of social bonds, or vice versa.

Winkler-Viti, Berlin Hyp: That's a very important point Joop makes. In our case, this is a complementary instrument, with a different function than the green bond. It is not there to refinance a certain portfolio, but is a general purpose refinancing instrument that is at the same time linked to the sustainability performance of the whole institution. The goal for that performance is defined, and by issuing the SLB, we are able to share our progress with capital markets partners. In doing so, you put a little bit more pressure on your own organisation to really reach your target, because from now on everybody will look at you every year to see how well you have progressed so far.

Day, Sustainabonds: Sharon, you've also issued green bonds. How interesting might an SLB be for de Volksbank?

Sharon Bloemendal, de Volksbank: We have been looking closely into this topic. In our view, green bonds do not say a lot about our sustainability goals, so it's very nice that you can together take a forward-looking approach with a sustainability-linked framework and a backward-looking approach with the green bond framework in a sustainable funding strategy. So it's definitely an interesting option.

But we see a lot of hurdles, with the European Banking Authority (EBA) not being

sure if SLBs are eligible as MREL issuances — because the step-up coupon or other penalty could be seen as an incentive to redeem — and hence if the structure can be used for all financial instruments. That's something we are aware of and we want to be 100% sure that SLBs are useful for all kinds of instruments before taking them up.

We would like to use science-based targets for any SLB. And it is also necessary to develop a recovery plan, what is to be done if you don't reach your targets.

Besides that, we would also like to use something other than a step-up coupon. We would not use that mechanism because investors are not aiming to invest in something where they receive more money if targets are missed. So we are still looking for a different way of having a penalty if you do not reach your targets — including intermediate targets — such as paying money to a charity or a university for research.

So while I think it's a really helpful instrument — especially to show the other sustainable goals that a financial institution has besides only the green assets, to share your vision — there's still a lot to consider. For now, we are waiting to hear what EBA might have to say on those instruments, and in the meantime, we are looking at science-based targets, etc.

Day, Sustainabonds: We will pick up on some of those aspects you mentioned later as they are indeed critical aspects for SLBs.

Benjamin, RBI issues green bonds — you did a Tier 2 only yesterday. What is potentially interesting in going beyond green bonds and issuing SLBs?

Benjamin Wohnhaas, RBI: We are following the market and checking whether SLBs would also be a possibility for RBI.

One of the great aspects of a sustainability-linked bond is how it reflects your overall strategy and is not only focused on certain projects. If you choose a KPI that makes a lot of sense, like the one Bodo and Berlin Hyp chose, looking at the carbon intensity of the whole portfolio, it fits very well with the issuer's strategy — you are looking at the complete portfolio, not just the green part. However, I have to say that at the moment that's something we have struggled with a bit, since we do not have sufficient data from our clients yet.

Sharon Bloemendal, de Volksbank: 'We would like to use something other than a step-up coupon'

We meanwhile remain the largest issuer of green bonds in Austria and have many green projects in our portfolio, and we still see green bonds as a very good instrument. In just the past few months, some of our network banks in eastern Europe have issued landmark green bonds: Tatra Bank's in Slovakia was the first green bond from a bank in central and eastern Europe, Raiffeisen Bank Romania's was the first from a bank in Romania, and Raiffeisenbank's the first from a bank in Czechia. You can still be a first mover and innovator even with a green bond, depending on the region you are active in. We will continue to focus on some of our key initiatives in green bonds, with a stronger focus on renewables in the future, and still a very strong focus on green commercial real estate.

> **You are looking at the complete portfolio, not just the green part**

Day, Sustainabonds: Alban, what is it about SLBs that potentially makes them of interest to you? And how do they fit alongside green bonds?

Alban de Faÿ, Amundi: Currently on the sustainable fixed income market, we like use of proceeds bonds and sustainability-linked bonds. We see these two financial instruments as relevant and complementary.

Use of proceeds bonds allow us to provide transparency in strategies, and more and more investors want a very clear idea about how their money is used. Use of proceeds bonds also allow us to provide impact assessment at the project level.

Sustainability-linked bonds are an additional tool that will help issuers from all sectors to come to the fixed income market with sustainable bonds, whether or not they have green assets. One of the limiting points of green bonds is that not all companies have sufficient green assets to come to the market. Sustainability-linked bonds can be used by all sectors, with the KPI linked to different themes. It's true that it's mainly green at this stage, but we believe that we can have social KPIs, too, and we feel this development is quite interesting.

So they are two different tools. Use of proceeds bonds are really about transparency, and SLBs more about the overall strategy of the company. The issuer can set some KPI targets for their business and it's a way for us to engage over the medium to long term with issuers with relevant ESG objectives.

Day, Sustainabonds: I assume when you are looking at green bonds, you already try to get an idea of what the issuer's overall sustainability strategy is.

De Faÿ, Amundi: You're right, it's at the heart of our process to look at the consistency behind issuing a green bond and the overall ESG strategy of the issuer. Clearly we want to avoid financing a green bond from a company that is still developing coal power plants, for example. So it's part of the overall process to take into account the ESG strategy of the company, whether it's a green bond or another instrument.

Day, Sustainabonds: Benjamin, do you get a lot of questions on your overall strategy rather than just the use of

proceeds when roadshowing green bonds?

Wohnhaas, RBI: Absolutely. Investors are very interested in our overall strategy. That makes a lot of sense, because if your portfolio includes some green projects but otherwise you are still financing brown industry, and if your strategy is not to become a more sustainable bank in terms of your overall portfolio and having your customers transition to a greener economy, then ultimately the impact of such a bank isn't that positive — even if you have a positive concrete impact with certain projects. I understand if investors view this critically and want to see if the project fits within the overall strategy of the bank. It is not just a question of the individual green bond, but if the issuer really is on the correct path?

Day, Sustainabonds: Enrico, there's been a lot of SLB issuance since last summer from non-banks. Are you seeing interest from banks? What are the positives for banks of SLBs?

Enrico Tessadro, Sustainalytics: There have indeed been many more non-financial institutions adopting these kinds of instruments, but banks are quickly following suit. This is something we saw also for the traditional green and social use of proceeds bonds: whereas initially industries like utilities and real estate led the way with these instruments, financial institutions came soon after.

Banks as an industry are, in a way, in a privileged position as enablers. They can, through their strategies, drive investment in new industries and really have the opportunity to shape how the sustainable finance market will look in the future. Some industries, particularly not so green sectors like oil and gas, find sustainability linked-bonds to be a way in which they can label issuance as sustainable. Financial institutions can meanwhile find relevant KPIs that are appropriate for themselves and incentivise the transition in such industries, as well as other sub-industries. This instrument can help them drive change.

Benjamin Wohnhaas, RBI: 'It is not just a question of the individual green bond, but if the issuer really is on the correct path'

On the other side, investors are increasingly screening banks — as with other industries — on the basis of their sustainability performance, such as the risks of their exposure to climate change. Interestingly enough, the European Banking Authority recently released a report analysing the exposure of banks to climate risk, and found that a lot of banks are not really prepared to face regulatory risks arising on this front, particularly because of a lack of data for their loans to small and medium-sized enterprises. But if a financial institution actively tackles this issue, they can address risks that investors really care about and which could pose a regulatory risk in the not so distant future, while at the same time being able to issue a sustainability-linked bond.

> **This instrument can help banks drive change**

Day, Sustainabonds: Yes, there are a lot of regulatory initiatives on disclosure of climate-related risks and these are increasingly mandatory. Benjamin, regarding SLBs, you mentioned there is a lack of information from clients — will you be trying to get more data also to be aligned with regulatory reasons?

Wohnhaas, RBI: Yes. We already committed to setting a science-based target back in 2018, when there wasn't yet a methodology for banks and financial institutions. Now that there is one, we are of course working to fulfil our commitment and set a relevant target. We are also already measuring the Scope 3 emissions related to our credit portfolio. But although these calculations are, to a certain extent, based on actual data published by our customers, to a larger extent we — just like others — currently have to model the data.

We are now obliged to seek this kind of data from our customers, but it's not just that they haven't been sharing the data with us; quite often they just don't collect it and don't have it themselves. But the non-financial reporting directive and soon the corporate sustainability reporting directive are covering more and more companies — in the EU, at least — and with this new regulation, we will be able to get more and higher quality data. We are very much looking forward to receiving this as we will be able to set quantitative targets based on high quality material. Then we will be very happy to have the possibility of going down the SLB route while feeling quite comfortable with the underlying data and setting a good target.

Day, Sustainabonds: I understand de Volksbank has been very focused on this type of issue for some time. Is a climate-related KPI based on such metrics, similar to what Berlin Hyp did, what you would be considering for an SLB?

Bloemendal, de Volksbank: We have already been carbon-counting since 2015, due to the climate neutral balance sheet goal we have for 2030. So that kind of data is not too hard for us to retrieve.

Day, Sustainabonds: Is a climate-related KPI based on such metrics, similar to what Berlin Hyp did, what you would be considering for an SLB?

Bloemendal, de Volksbank: No, we would definitely use science-based targets, verified by the second party opinion (SPO), if we

Alban de Faÿ, Amundi: 'For us, one of the key issues is that the KPI has to be relevant'

were to set up an SLB framework, and that is something we are working on right now. We thought it would be good to sort that out after reporting the Scope 1, 2 and 3 emissions, and to show the reduction taking place in our total balance sheet. So yes, we definitely want to use science-based targets for the targets in an SLB framework if we would set that up.

Day, Sustainabonds: Joop, data has been an issue that green bond issuers have had to tackle — is it now possibly a similar challenge for SLBs? And what are appropriate KPIs?

Hessels, ABN AMRO: As in the early stages of any market, there is a process underway, and we will see some market standards emerge. For now — like the sustainability linked loan market — these are under development.

It really depends on the particular company. If the company has science-based targets incorporated into its organisation, that's a great way to start. But it shouldn't prevent issuers from taking the first step, and you can have very good strategies based on other targets.

Take the EU Taxonomy, for example: a sustainability-linked transaction doesn't automatically link to the EU Taxonomy as a product, but you could definitely use certain goals that are defined in it. EBA has also discussed the Green Asset Ratio and if that is something that will ultimately be required, then companies will start to report on it. The main difficulty at the beginning will be the availability of data, but hopefully more and more information will become available, and these kinds of tools can be used going forward.

In the SLB Principles, it says KPIs should be relevant and material — that is the most important consideration. Ideally, yes, it's science-based, but not everything can be purely 100% science-based — especially, for example, if you include social elements, about diversity, SME financing and other such aspects, then it's already getting more complicated.

It's more important to start taking steps in this direction, than waiting to design the perfect step — as the saying goes, perfect is the enemy of good.

Winkler-Viti, Berlin Hyp: Perhaps I can add something on science-based targets. I believe that what people may have in mind is what has been recognised by the Science Based Targets Initiative (SBTI), but that is not the definition of science-based, it is just what has been recognised by the SBTI. I doubt anybody would dispute that being in line with the Paris Agreement and being in line with the climate pathway of national governments is science-based.

> **We also see KPIs that don't necessarily have a positive impact**

Secondly, all the issuers here are banks, and there is a big challenge in approaching Scope 1, 2 and 3 as a bank: you provide finance multiple times in the value chain of the same client and there is a huge potential for double-counting when you look at all these steps separately. For example, in the real estate sector, you initially finance the development of buildings and potentially later you also finance the acquisition. Scope 1 and 2 of the development is already Scope 3 of the acquisition. That is one of the reasons why for such a long time under the SBTI there was no recognised science-based target for the financial industry.

Wohnhaas, RBI: I agree with your general statement, Joop, that it makes more sense to start than to build the perfect product, but on the other hand, we still want to have a certain level of confidence in our KPI and our target-setting before going to the market. We have seen some very good KPIs and SPTs in the SLB sphere, both from corporates and then Berlin Hyp set a very good example here in the financial institutions sphere. But sometimes we also see KPIs in SLBs that don't necessarily have a positive impact if you look at them very critically. That is where we want to make sure that when we go to the market with an SLB that we will feel very comfortable in setting an impactful and meaningful target.

Day, Sustainabonds: Alban, have the KPIs so far in SLBs been as relevant and ambitious as you would like?

De Faÿ, Amundi: For us, one of the key issues is that the KPI has to be relevant. When we say relevant, it has to be in line with the major challenge or the heart of the business of the company. That's the first step. Sometimes carbon intensity is not the biggest challenge for a company. Depending on the sector — banking, for example — and depending on the type of intensity you take into account, maybe it's not the best or the most relevant KPI.

The second step is to assess the stringency of the SPT. Sometimes it can be challenging to have a clear view of the historical trend of the issuer in relation to a KPI if we do not have a lot of track record on it. Science-based targets can be very helpful for looking at the targets of a company as they allow you to take into account the specificities of its sector.

So for us SLBs are a nice tool, but not necessarily the easiest, and clearly you need additional analysis to assess if for you the SLB is interesting or not. And there could be a risk that some investors just check the box and calculate the weight of green, social and sustainability-linked bonds in their portfolio without doing additional work to be sure that the green bond is really green and in line with the overall strategy, and that the SLBs are consistent and with the right KPI.

Enrico Tessadro, Sustainalytics: 'It is interesting to see the kind of innovation that can come from the banking industry'

Day, Sustainabonds: Let's return to some of the points Sharon mentioned at the start, on structuring and regulatory considerations. What are the potential obstacles for banks, and are they holding up issuance?

Hessels, ABN AMRO: It depends on the instrument. There are various transactions you could use an SLB for, but especially for capital instruments and some bail-in-able instruments, the jury is still out. We have seen some comments to the effect that the potential callability of SLBs would be an issue from a regulatory perspective. We haven't seen the final word on that, as regulators are looking into these aspects. But the market will also look into this and see if there are any workarounds, and we are considering other possibilities. It's not necessarily going to be straightforward, but hopefully the market will manage to continue to develop when there is more clarity from the regulatory front.

Day, Sustainabonds: Bodo, I understand this hasn't been an issue for Berlin Hyp, but I imagine you've at least given some thought to the regulatory angle.

Winkler-Viti, Berlin Hyp: We decided to make clear from the start that this is not an MREL-eligible instrument, so we chose the senior preferred format to make sure that there is no dispute with any regulator. I'm very happy we did it this way, and I'm also happy that apparently EBA took this as a starting point to now make up their mind on how to deal from a regulatory perspective with this class of ESG instruments when they are issued by banks.

I must confess that I still don't understand the EBA's issue with this structure. The step-up or higher repayment amount is not per se an incentive to redeem. It does not even offer the potential to redeem early — you need another structure on top of that, let's say, a call option that is embedded in the bond. If you have a plain vanilla instrument and just the sustainability-linked feature attached to it, I do not see where there is an incentive to repay early, or even if there were, how you could manage to do so. So they should make up their mind quite soon and separate the two issues from each other.

Tessadro, Sustainalytics: As an external independent party providing the SPO, we are neutral in regards to this aspect, but so far we haven't seen any alternative to the mechanisms that have been discussed. But it is interesting to see again the kind of innovation that can come from the banking industry as they seek to legitimately take advantage of the instrument. Let's remember that this is, it's fair to say, still a pretty recent development in the market, because the first wave of SLBs only started in the third quarter after the Principles were issued last year.

> **I still don't understand the EBA's issue with this structure**

Bloemendal, de Volksbank: This is something the market really has to sort out properly. We agree that it's definitely not an incentive to redeem, but if they see it like that, we have to look for another way where the EBA feels confident that there is not an incentive to redeem. So I hope we will see various other mechanisms emerging — we are looking at

Joop Hessels, ABN AMRO: 'For capital instruments and some bail-in-able instruments, the jury is still out'

some, but I do not see another option yet. They also see a penalty payment to a charity, for example, as an incentive to redeem, so they do not make a difference between the step-up/step-down and penalties.

Day, Sustainabonds: Alban, what are your views on how appropriate the coupon step-up mechanism is? Not everyone seems to like it. And have you come across any potential alternatives?

De Faÿ, Amundi: Sometimes people look at the step-up without taking into account the reason you want to invest. For us, the step-up is part of the overall appeal of SLBs, in that we want to be involved in these bonds because there is a KPI and this KPI is managed at the top management level of the company. When you invest in this type of bond, if the issuer fails to reach the SPT, you may lose some confidence in the company's ability to manage this KPI, in which case you may have lost some money because the issuer's entire curve will widen. So we see the step-up not as a penalty, but as a kind of protection for investors who have put their confidence in the issuer's ability to reach some ESG SPT. That's a very important point. And at this stage we believe that we need this kind of compensation.

Maybe you could have two types of compensation. It could be a step-up, and for me the step-up is perhaps the right way to de-


Bodo Winkler-Viti, Berlin Hyp: 'The whole SLB market needs time to establish itself still a little bit more'

velop a global sustainable market with many types of investors. But perhaps for a private placement or for a small group of investors, some issuers could move from a step-up coupon to compensation, like a payment to an organisation that would put it towards achieving a similar impact to that which the issuer did not achieve. Our goal as an investor is that the issuer reaches its target at the relevant date, so if it's not able to do that, an alternative could be to know that the money will be put towards reaching the target by other means. It's important to bear this in mind, and not just to look at the step-up as a penalty, but part of the overall goal.

Hessels, ABN AMRO: A step-down could be an alternative, because that's definitely not a trigger to call, because it's beneficial — although obviously we might then have an issue with investors.

Winkler-Viti, Berlin Hyp: We have it as an option in our SLB framework, but we think this market is not ready for this — not now and not in the near future.

We attracted a lot of very interesting investors for our SLB. On the other hand, there were investors who said that to invest in such a structure, they need to complete a new product process. Going through this process for a product where you have no real financial downside is naturally a little bit easier for an investor than one where the coupon can be decreased. So the whole SLB market needs time to establish itself still a little bit more, with SLBs becoming a common type of instrument, and then potentially, in the medium term, we can also speak about step-down options.

At the same time, I would like to highlight that in the framework — so not for this specific bond, where we said it is only a step-up — we only allow for a step-down option if it is combined with a step-up. There cannot only be a step-down. If you miss your target, you have the step-up, but on the other hand, if you exceed your target by at least 10%, then you could have this step-down option.

Day, Sustainabonds: Alban, is a step-down coupon something you could accept?

De Faÿ, Amundi: No. Clearly it's not on the table on our side — for a couple of reasons. We cannot have a step-down if there is no clear link to the credit side of the issuer, because otherwise you would be building a market incorporating the idea that sustainable investment will pay lower returns — clearly that's not what we want to do. We want to convince investors that sustainable investments will provide higher returns, so we may have a problem if we show investors that if they invest in sustainable tools they will have lower returns — I don't have any clients who would be happy with this kind of philosophy. We are in most cases talking about pension funds or other institutional investors, where it's not their money and they have fiduciary duties. I cannot explain to my clients that I lost a few basis points of return because the issuer has a better ESG outcome but without a direct link to its credit quality — we could have cases where the SPT is achieved but at the same time they have some credit quality issues. We are not talking about philanthropy. Maybe there are some investors who are willing to share a part of their return with better ESG issuers, but the biggest part of the market has fiduciary duties.

> **Our goal as an investor is that the issuer reaches its target**

Day, Sustainabonds: Sharon, when you said you are keen to be able to use SLBs for all instruments, is that because you are particularly keen to use this structure for capital instruments? Some people have been sceptical about the use of proceeds model for AT1 in particular, so possibly SLBs would be more appropriate?

Bloemendal, de Volksbank: No, I think both would work very well. The rationale is quite straightforward: it's that when we do set up our whole framework, we don't only want to use it for covered bonds, but for all types of instruments.

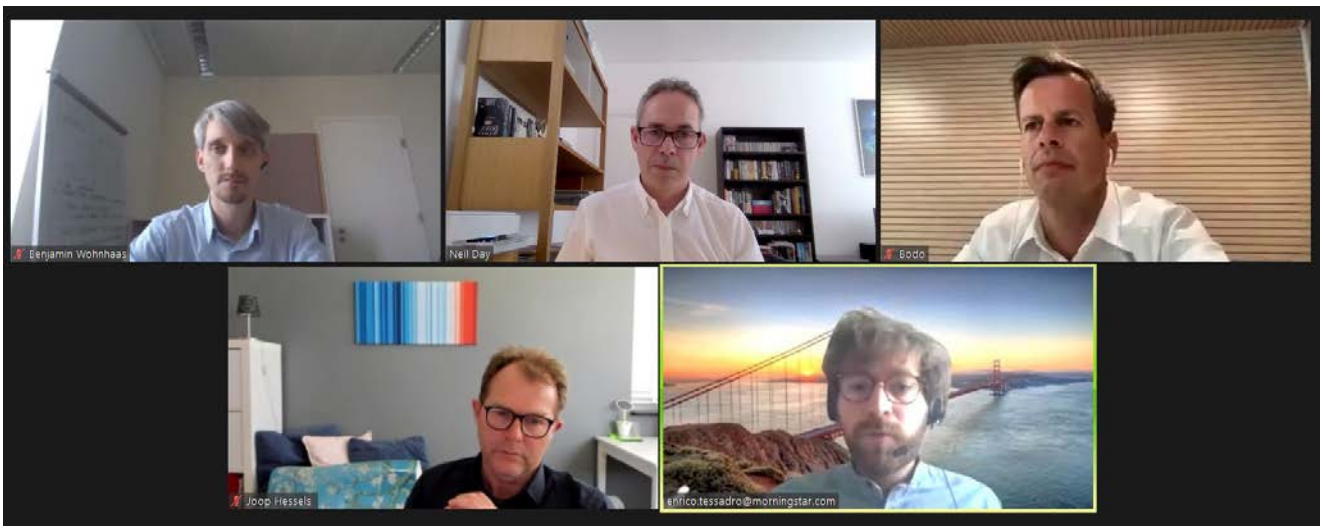
The green bond framework works very well. It's a mature framework now, already aligned with the EU Taxonomy. We do have enough assets and we will increase our eligible green loan portfolio with other types of categories.

As I said before, SLBs are very useful to go beyond only green assets and show your vision as a company. They could also attract other kinds of investors, who are in the early phase of ESG investing and not only looking for use of proceeds bonds.

Day, Sustainabonds: Picking up on the covered bond point, it has been suggested that because MREL is not an issue for them, covered bonds could be a suitable instrument — which IU a bit odd, because when the first green covered bonds were happening, it was seen as a particularly appropriate instrument because there is already a closer link between the bond and the assets. Are covered bonds fertile ground for SLBs?

Hessels, ABN AMRO: Absolutely. That's definitely a market where there is potential for this SLB format.

Even in current sustainable covered bonds, there doesn't have to be a link to the



underlying assets, as it's also general corporate purposes financing — although in reality most of the time we have seen a direct link to the real estate involved.

One of the big challenges of the real estate market is the improvement of existing buildings, and it might sometimes be challenging to exactly measure the very specific sustainability data, or the values of those properties. Yet supporting their clients in this transition is something banks want to tackle. So if an appropriate metric is available, SLBs could be a very interesting way of financing this transition.

But the KPI could be much wider. You can also look more at social components next to specific real estate-related targets. The good thing of this KPI-linked, SLB market is that you can have a wider view than only the underlying assets, and that can fit very well in relation to a covered bond, too.

Winker-Viti, Berlin Hyp: As you know, for our first SLB, we did not choose the covered bond format — which is explicitly allowed for in our framework — but the senior preferred format. This instrument also avoided any regulatory challenges, but beyond that, with this first issue we did not want to use an instrument where the link to the underlying assets is as strong as it is with a covered bond. In using the senior bond format, we wanted to convey that this is more holistic, not only looking at the cover pool but at the whole bank. Still, I can also imagine seeing SLBs that are covered bonds in future and I wouldn't rule it out for Berlin Hyp at all.

Day, Sustainabonds: Looking beyond green and climate-related KPIs, can you foresee banks doing social and other sustainability-linked KPIs for SLBs, as suggested by Joop?

Tessadro, Sustainalytics: It pretty much depends on the nature of the financial institution. Like Bodo was saying at the beginning of this roundtable, they naturally chose something related to real estate because this is their vocation. So it will depend on what the footprint of the bank is in terms of industries financed. For instance, if a company is mainly active in financing social housing projects, they could easily set a KPI relating to how many people are served by social housing. So there are no limits in this respect. The biggest banks of course have incredibly diversified asset portfolios, so it would be good for them to find social KPIs that are relevant to them, but also there are no limitations on the number of KPIs that can be used. As players on all sides of the market — issuers, underwriters, SPO providers — become more expert in these instruments, it is likely that we will create a pool of social KPIs that are also meaningful for banks. It may involve climbing up the learning curve for all sides, but the sky's the limit. From a social perspective, there are massive financing needs, so we are looking forward to the pool of potential projects that are going to be coming through.

De Faÿ, Amundi: We don't have many non-green examples in KPIs yet, although we saw Novartis with a patient access target in September, for example. It's true that everybody is talking about environmental topics, climate change and the Paris Agreement, but the social part is for us very important. I believe some sectors could come with SLBs that have social KPIs to improve areas where there are challenges. This could perhaps be diversity in sectors where there is a lack, for example, or access to healthcare could be quite important.

Wohnhaas, RBI: I very much agree about the social aspect. Social in general is a bit overlooked at the moment in the sustainable finance sphere. I'm very much looking forward to the EU Taxonomy also taking a stance on social, and hoping that this will push the social agenda forward a bit more. Environmental topics are important, of course, and without tackling climate change we don't have to think about many of the other topics, that's for sure.

But we are a banking group active mainly in CEE and social is a huge topic in our local markets. Job creation and youth employment are still important challenges, and also access to basic services. With Covid-19, we have all seen how important access to healthcare is and I really think that this could be a very good opportunity for banks to have a positive impact there, too, in future. ●