

ECB Bond Market Contact Group

Developments in the ESG and Sustainability-Linked Bond Market

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Frankfurt, 15 September 2021



EU Sustainable Finance Action Plan on the home straight: political consensus, concretisation and implementation in 2021/22

	Taxonomy (EU classification)	Eco label for financial products	Sustainability in investment advice	CO ₂ benchmarks	Sustainable Finance Disclosure Regulation
Content	Development of an EU classification for sustainable economic activities	Introduction of an eco label for the identification of environmentally friendly investments	Sustainability preferences must be taken into account for investment advice as of 2 August 2022 . Applies to MiFID II and IDD	Introduction of EU reference values for climate-related change ("Paris aligned" and "climate transition")	Lay out sustainability risks in investment processes and for sustainable financial products and consider principle adverse impacts
Status	Regulation published 22 June 2020 in the Official Journal of the EU	Final drafts of label criteria have been available since 9 March 2021	Delegated act published on 21 April 2021	Published on 9 December 2019 in Official Journal of the EU and in force since 30 April 2020	Publication of the regulation (Level I) in Official Journal of the EU on 9 December 2019
Timetable and outlook	Delegated act with taxonomy criteria published on 21 April 2021, applicable as of 1 January 2022	Introduction of label planned for end of 2021	Mandatory implementation expected as of October 2022	Delegated acts in force since 23 December 2020 - legislative process has thus been completed	Level I applies (with some exceptions) since 10 March 2021 - Level II is expected to apply as of 1 July 2022

Additional sustainability measures presented on 6 July 2021

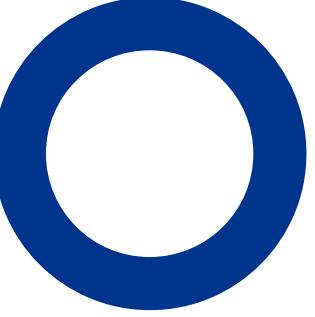
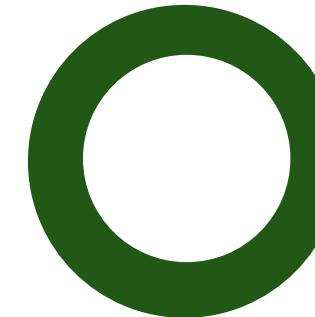
- New strategy for financing the transition to a sustainable economy
- Proposal for a Taxonomy-based EU Green Bond Standard

EU Green Bond Framework presented on 7 September 2021

- Independently evaluated Green Bond Framework in line with ICMA Green Bond Principles, but most likely not with EU Green Bond Standard
- Expected issuance of up to € 250 bn in green bonds until 2026

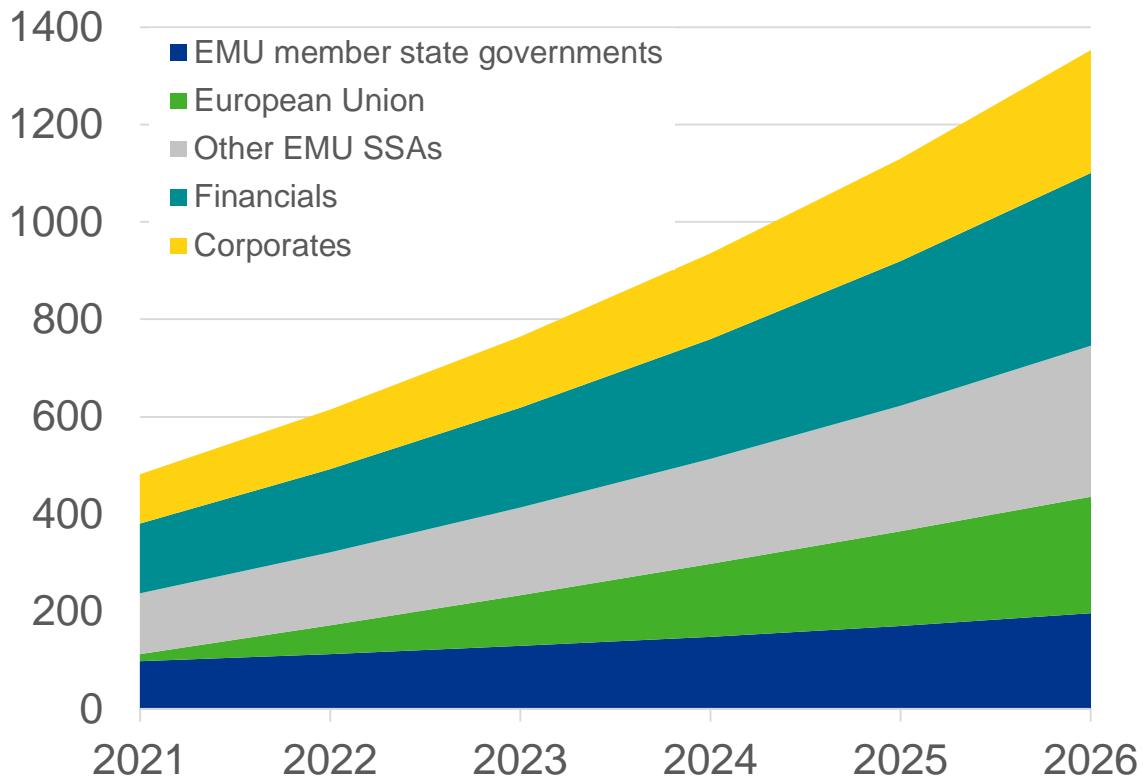
Source: Union Investment, based on the EU Commission's plans and the legislative process in Parliament and the Council. Data as of 7 September 2021.

ICMA Principles for Thematic Bonds

Use-of-proceeds metrics			KPI metric
Green Bonds	Sustainability Bonds	Social Bonds	Sustainability-Linked Bonds
			
Provide resources for specific projects (demonstrable capex requirement)			Provide credit for entire company
Plain vanilla cash flow structure			Coupon determined by firm-level sustainability achievements
ICMA Principles / Thematic Bond Framework / Second Party Opinion / Reporting			

The euro-denominated Green Bond market should more than double in size over the next five years

Market capitalisation of euro-denominated Green Bonds in € billions



Total bond issuance under the NextGenerationEU programme could reach around € 800 bn until 2026, which translates into borrowing volumes of roughly € 150 bn per year.

30% of NextGenerationEU's total issuance, or up to € 250 billion, is expected to come in the form of Green Bonds; this will turn the EU into the largest Green Bond issuer in the world.

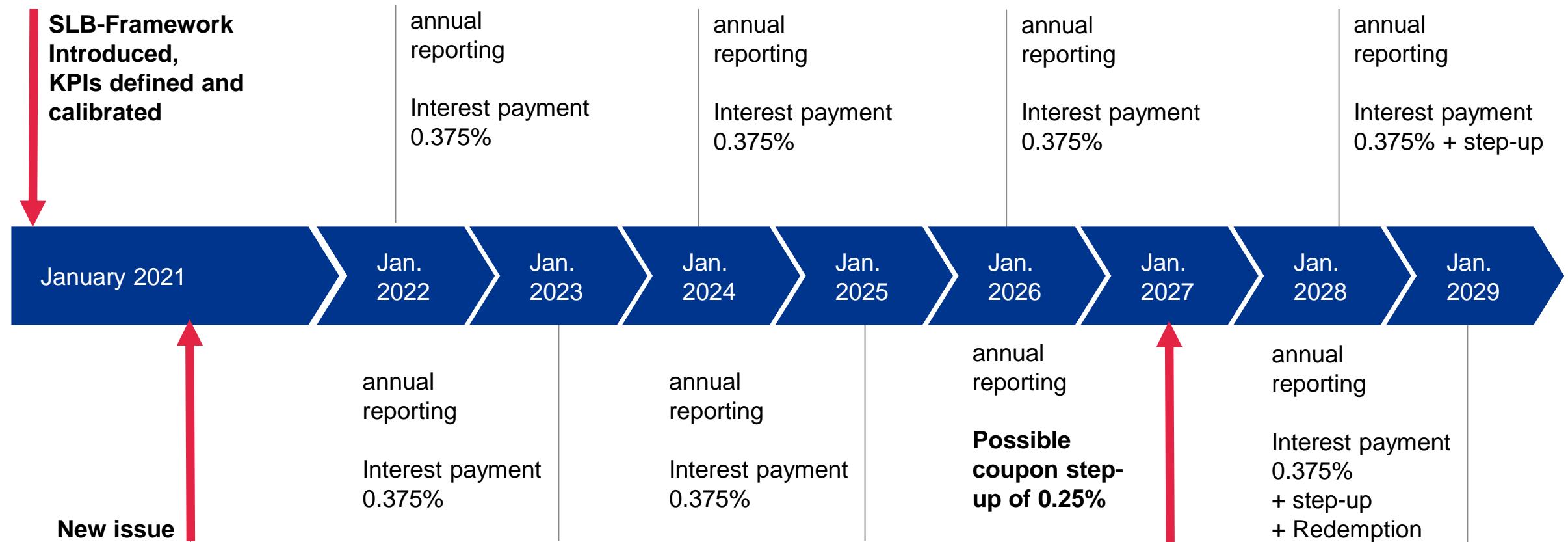
We expect the size of the euro-denominated Green Bond market to exceed one trillion euros by the end of 2024.

By the end of 2026, the market capitalisation of the EU's own Green Bonds should exceed the outstanding volume of Green Bonds of all EMU member state governments combined.

Source: Union Investment projections, https://institutional.union-investment.de/home/Capital-Market/Theme_EU_gives_go_ahead_for_first_green_bond.html

Life Cycle of a Sustainability-Linked Bond

Tesco 0.375% 27.07.2029



Discussion points

- 1 Would a gold plating of ICMA's Green Bond Principles by the proposed EU Green Bond Standard with explicit EU taxonomy alignment help or hinder the development of the Green Bond Market?
- 2 Should external reviewers of European Green Bonds be registered with and supervised by the ESMA, as proposed by the European Commission?
- 3 Does the issuance of KPI-linked bonds by barely sustainable corporates amount to greenwashing, or is it a legitimate form of transition financing, which directs capital where it is most needed?
- 4 Should the industry set minimum requirements for a re-classification of existing investment funds as Article 8 funds under the EU's Sustainable Finance Disclosure Regulation?

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