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

<table>
<thead>
<tr>
<th>Taxonomy (EU classification)</th>
<th>Eco label for financial products</th>
<th>Sustainability in investment advice</th>
<th>CO2 benchmarks</th>
<th>Sustainable Finance Disclosure Regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of an EU classification for sustainable economic activities</td>
<td>Introduction of an eco label for the identification of environmentally friendly investments</td>
<td>Sustainability preferences must be taken into account for investment advice as of 2 August 2022. Applies to MiFID II and IDD</td>
<td>Introduction of EU reference values for climate-related change (&quot;Paris aligned&quot; and &quot;climate transition&quot;)</td>
<td>Lay out sustainability risks in investment processes and for sustainable financial products and consider principle adverse impacts</td>
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<tr>
<td><strong>Content</strong></td>
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<tr>
<td><strong>Status</strong></td>
<td>Regulation published <strong>22 June 2020</strong> in the Official Journal of the EU</td>
<td>Final drafts of label criteria have been available since <strong>9 March 2021</strong></td>
<td>Delegated act published on <strong>21 April 2021</strong></td>
<td>Published on <strong>9 December 2019</strong> in Official Journal of the EU and in force since <strong>30 April 2020</strong></td>
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<tr>
<td><strong>Timetable and outlook</strong></td>
<td>Delegated act with taxonomy criteria published on <strong>21 April 2021</strong>, applicable as of <strong>1 January 2022</strong></td>
<td>Introduction of label planned for <strong>end of 2021</strong></td>
<td>Mandatory implementation expected as of <strong>October 2022</strong></td>
<td>Delegated acts in force since <strong>23 December 2020</strong> - legislative process has thus been completed</td>
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**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

ICMA Principles for Thematic Bonds

<table>
<thead>
<tr>
<th>Use-of-proceeds metrics</th>
<th>KPI metric</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green Bonds</td>
<td>Sustainability-Linked Bonds</td>
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<tr>
<td>Sustainability Bonds</td>
<td>Provide credit for entire company</td>
</tr>
<tr>
<td>Social Bonds</td>
<td>Coupon determined by firm-level sustainability achievements</td>
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</tbody>
</table>

- Provide resources for specific projects (demonstrable capex requirement)
- Plain vanilla cash flow structure

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

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.
Life Cycle of a Sustainability-Linked Bond

Tesco 0.375% 27.07.2029

SLB-Framework introduced, KPIs defined and calibrated

January 2021

annual reporting
Interest payment 0.375%

New issue

Jan. 2022

annual reporting
Interest payment 0.375%

Jan. 2023

annual reporting
Interest payment 0.375%

Jan. 2024

annual reporting
Interest payment 0.375%

Jan. 2025

annual reporting
Interest payment 0.375%

Jan. 2026

annual reporting
Possible coupon step-up of 0.25%

Jan. 2027

annual reporting
Interest payment 0.375% + step-up + Redemption

Jan. 2028

annual reporting

Jan. 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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