Transparency drive pushes SRI bond market to new frontiers

The fast-developing green, social and sustainable bond markets have moved on from obsessing about the volume of issuance and the basics of how to issue the bonds, to new challenges.

Above all, the SRI bond market is about communication — between issuers and investors, assisted by investment banks; between issuers and society at large; and, increasingly, regulators are joining the conversation.

In late June, leading issuers, investors and bankers in the market gathered in London to discuss the latest developments at a roundtable convened by *GlobalCapital*.

The meeting coincided with the publication by the European Commission and its Technical Expert Group of the first draft texts of the planned Taxonomy of Sustainable Economic Activities and Green Bond Standard.

Participants welcomed them both, seeing them as important steps to clarify and define what is environmentally sustainable and in line with the Paris Agreement.

However, there were also warnings about the Taxonomy, in particular that it should be flexible and inclusive enough to encourage a broad range of projects. And there were calls for the Standard to remain voluntary rather than enforced. Green finance specialists want the market to remain self-regulating.

Participants also discussed the evolution of impact reporting, in particular the desire for a common standard that is being held back by the lack of data available in the same format.

The green pricing premium was debated — with demand for sustainable debt far outweighing the supply, most believed it would continue to grow. However, participants pointed to the risk that if the premium grows too much, then this will result in issuers who should not be in the market, having been attracted for purely financial reasons.

Participants in the roundtable were:

Maarten Biermans, head of sustainable markets, Rabobank

Andrea Dore, head of funding, World Bank

Kristofer Dreiman, head of responsible investments, Länsförsäkringar Asset Management

Lars Eibeholm, vice-president, head of treasury, Nordic Investment Bank

Miguel Garcia de Eulate, head of treasury and capital markets, Caja Rural de Navarra

Kirsten Häger, head of sustainable finance, Ministry of Finance, State of North Rhine-Westphalia

Cristina Lacaci, executive director, Morgan Stanley

Eric Ligthart, project lead green bonds, Dutch State Treasury Agency

Aldo Romani, head of sustainability funding, European Investment Bank

Christopher Wigley, formerly senior fixed income portfolio manager, Mirova

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

Jon Wright, sustainable finance reporting manager, HSBC

Toby Fildes, managing editor, *GlobalCapital*

IMPACT REPORTING

GlobalCapital: Let's start with the question of impact reporting. How much consensus is there about the best way to go about it or is there still a lot of variety? Is this a way for issuers to differentiate themselves and are some investors unreasonable in what they demand?

Kirsten Häger, State of North Rhine-Westphalia: We would be very happy to have a common standard for impact reporting, but unfortunately that's not possible because issuers don't have the data available in the same format. And if we were required to report it in a certain way, then we would probably have to report about a smaller share of our assets. However, we observe what others do, and try to be as transparent as possible when it comes to our own impact reporting. And we always try to be close to the best practices in the market.

Kirsten Häger,
State of North Rhine-Westphalia

Andrea Dore, World Bank: Impact reporting is still evolving. There is a lot of variety out there — and will continue to be for some time. Some of this stems from what issuers are trying to measure and report — the types of projects they finance and what systems they have in place to track and measure results. We started the impact reporting harmonization work and continue to work on it through a Working Group led by EBRD as part of the Green Bond Principles to propose harmonised metrics. These templates are a good resource for issuers. Similar work is in the early stages on social bonds. We use the templates in our report and aim for a high level of disclosure while being as transparent as possible. Aggregation remains a challenge, both within an issuer's portfolio and across issuers due to different methodologies and baselines. In our report we include additional indicators to include social elements of green projects we finance. We also engage regularly with investors on our green bond impact report and we find this dialogue useful to understand how investors use the report and what we might improve or change in the next report. It is important for issuers to start somewhere — report what they can — and make an effort to improve reporting towards best practice over time.

Jon Wright, HSBC: We use ICMA as a standard to look at our impact reporting, but being a big multinational bank, we can only report a limited amount of data. We have confidentiality commitments with our clients, so we can't give out complete information, as people might work out what a precise transaction relates to. But we also need to use information that's in the public domain which can be validated, so when it is assured and checked, the impact information we put out there is accurate.

We quite clearly state that the value of each asset and its impact relates to the whole project, which is then publicly available. So if it was a wind farm that's going to produce 100kW of energy to the grid, we'll say that the 100kW is the impact, regardless of whether it's multiple banks or investors financing it, because right now there's no standard way of apportioning any of that impact. So it does tend to be whole project impact that we report on.

Bodo Winkler, Berlin Hyp: There are some rules about impact reporting and how it's best done that everybody would agree on. A good impact report firstly is accurate and is easy to understand. But in the end, projects vary a lot. And access to data varies a lot among issuers.

We now have a trend of harmonisation, with, for instance, the recommendations of the Green Bond Principles Working Group, the Nordic Position Paper of the public sector issuers and the harmonised framework of the MDBs.

Although all that is in place, there are still a lot of differences to be observed. And it can happen that two issuers financing basically the same asset come up with different impacts. This is an issue that needs to be solved somehow.

GlobalCapital: Can it be solved? It sounds like an impossible conundrum.

Winkler, Berlin Hyp: It can be solved, but it means really communicating with each other and having everybody round the table with the same interest of having something that is easy to understand. And not thinking 'I will do it my way because I always did it this way, and it's the easiest way for me, or my advisers advise me to do it like this'.

Maarten Biermans, Rabobank: There are certain investors who have been doing this for a long time, and they have a different idea of what is easy to understand, vis-à-vis all the new investors coming in that are starting literally from scratch.

Winkler, Berlin Hyp: Even with the advanced ones, you have different opinions of whether you should, for example, provide aggregated data or line-by-line data. The thing you can do as an issuer at the moment is be as transparent as possible. This means showing all your sources and all the steps it takes you to get from the project itself to the basic impact you calculate.

Biermans, Rabobank: Plenty of investors are interested in impact reporting and are telling issuers to do it. But when you go back to the investor a year after the issuer has published the impact reporting and ask them what have they done with it, some will admit that they haven't actually done very much. My hypothesis is that many are not doing anything with the information available.

Eric Ligthart, Dutch State Treasury: I don't agree with that. We spoke with investors when we were preparing our green bond and the feedback we got was that they did not want anything over-complicated. It has to be easy to use, because otherwise the investor is not going to keep it just because it is a green bond. The investor wants to aggregate different bonds together. The more complicated it gets to understand, the more difficult it becomes for the investor to aggregate these figures to make something worthwhile for the end customer he is reporting to.

So the challenge is trying to find something meaningful but also that's quite easy to understand and aggregate. It's still trial and error.

GlobalCapital: But it does sound like it's a compromise?

Kristofer Dreiman, Länsförsäkringar Asset Management: That is really the complicating factor, because we have at the moment roughly 40 issuers in our green bond portfolio, and they all report in different ways. Our stakeholders have historically been interested in the financial volumes we have invested, but now they want to get on to the next phase, which is specific environmental impact studies such as CO_2 emissions saved or renewable energy produced. That might just be one or two of these KPIs and that's enough to start with.

Kristofer Dreiman,
Länsförsäkringar Asset Management

Winkler, Berlin Hyp: In the end we don't do it only for the investors, we also do it for ourselves. In our case it is very important that we know what the impact of each and every project is, because we incentivise it financially. That means financing a green building with Berlin Hyp is cheaper than a conventional one, which means I really want to have some certainty that these are really the right projects.

Biermans, Rabobank: I fully agree. If it wasn't for the intrinsic motivation of the issuers, impact reporting would not be nearly so advanced as it is. But do you think impact reporting is more of a marketing gimmick, or is it really about accountability?

Aldo Romani, European Investment Bank: In our experience investors are definitely the ones driving impact reporting forward. They started in 2014 when the Green Bond Principles were created.

Until then we had reported on eligible disbursements and their timeline only. Then investors started to ask more about the impact of eligible projects. Our first CAB-impact report is dated March 2015.

Increasingly now they are asking for comparability. And when comparability is the objective, you need to simplify, to find a common denominator. This is what the European Commission has started to address with its Taxonomy.

It is then the desire for excellence by each issuer that pushes each of them forward to anticipate others. Peer pressure is generated, and then best practice spreads around the market.

Measuring impact is still in its infancy, however, and needs to be fostered. In the Green Bond Principles impact reporting is still voluntary, while in the context of the Green Bond Standard that the Commission is thinking about, it is going to be mandatory if you want to abide by the Standard.

For market leaders, the frontier thus becomes external verification of impact reporting.

MOVING FRONTIERS

Biermans, Rabobank: Aldo, if issuers are only reporting on the positive things they are doing, and ignore all the possible negative stuff they're investing in, isn't that a bit disingenuous?

Romani, EIB: This is a very good point. There is clearly a moving frontier between what you can report on according to criteria that the market considers relevant (the portion of your balance sheet receiving allocations from green bonds), and all the other activities, which are not covered by green bond issuance and related impact reporting.

Eventually, the relationship between these two portions of the balance sheet ('green bond ratio') is going to become in itself an indicator of how the economy is evolving in the eyes of the markets, incentivising issuers with a transformational strategy to make results visible to investors by growing this ratio.

Chris Wigley: Yes, impact reporting is a communication. Asset managers are interested in that. When they have a monthly fact sheet on their funds, they do like to include impact data on there and clients want to see that.

But it's also more than that. Impact can determine whether a green or social bond is actually eligible for investment. We've had controversial issues in the past, with regards to green bonds issued by oil companies.

How does the investor decide whether that bond is eligible or not? Often they look at the impact of the bond. Just broadening it out a bit more, impact is very important. It's the frontier science, if you like. It's quite advanced in terms of carbon. I was very pleased to see the Green Bond Principles Report in June because it took impact reporting for water a stage further. It needed further development.

But there are at least two other green bond areas which need more science: land sustainability and biodiversity. So there is a lot more work to be done.

And we haven't really touched on social bonds at all yet, and that's another very difficult area to do impact reporting on.

So impact reporting is absolutely critical for the development of the green and social bond markets.

GlobalCapital: Lars?

Lars Eibeholm, Nordic Investment Bank: Yes, in the Green Bond Principles Handbook on a Harmonised Framework for Impact Reporting, which we published in mid-June, there are 16 core principles and recommendations for reporting that issuers should try to adhere to. They are very good in relation to being transparent, maintaining integrity and, of course, trying to use the template and matrix suggested.

It is an effort from the Green and Social Bond Principles to standardise impact reporting, because there is a scattered approach at present.

You mentioned, Bodo, that a project could have two types of impact reporting, depending on who is looking at it. You are absolutely right, because it all depends on, for example, which country the project is in. For example, which type of electricity market a renewable project is connected to. If there is a lot of coal in one market, the renewable project could have a huge impact, whereas if there's a lot of renewable energy already — for example, in Sweden and Norway — the impact would probably be lower.

These things make it difficult because you need to identify your baseline, and be transparent on how you have calculated it.

At NIB we report both on our portfolio but also at transaction level. If you reference your baseline, investors can actually say: "They used this baseline but I would like to use another baseline and calculate my own impact."

Miguel Garcia de Eulate,
Caja Rural de Navarra

Miguel Garcia de Eulate, Caja Rural de Navarra: For me, impact reporting is something we are learning from investors. As a regional bank, we interact with them, rub shoulders in meetings and have learned a lot.

Behind this is a legitimate social demand, because at the end of the day whose money are we talking about? Other people's money.

They have the right to ask those in the finance community — i.e. public and private banks — to find out where we channel this money, and decide whether they agree or disagree with it. This is a trend that is not going to go away.

We have to develop new metrics and adapt to different uses of proceeds. As a regional retail bank we face different challenges regarding impact reporting, for example, granularity. Impact reporting gets truly tough when it has to be applied to many thousands of small loans. But it has to be and will be developed, and I believe that the European Commission's TEG workstream is the beginning of the push for more harmonisation.

In terms of allocation reports, we believe that the Sustainable Development Goals, together with the Green Bond Principles, have been very helpful in allowing asset managers to explain (also with graphic symbols) what is the breakdown of the main drivers behind their positions.

Cristina Lacaci, Morgan Stanley: When it comes to impact reporting, it's very important to make sure you balance two things. First, you need to provide a comparable figure that can be aggregated by investors in their reports. But then, especially when it comes to social bonds and social projects, you need to give more context.

Some of the reports, for example, only include the number of people that live in a specific house. That's not enough to really measure whether that project is impactful or not. Impact will depend on the region, the country, the objectives or the average income of a target group.

When it comes to green bonds, I think we can all agree what the metrics are. We probably need to do more on certain projects like water efficiency, but it's quantifiable.

But when it comes to social, we all have very different views around impact. We need to do more work to make sure we standardise this in a way that is helpful for investors.

Dreiman, Länsförsäkringar: It's very important to keep a balanced view of all the issuers because otherwise you risk greenwashing and that raises reputational risk.

In your analysis, it's very important to differentiate between ESG announcements of the issuer and its green or social bond framework. We have said no to an issuer because, while we approved its green bond framework, we're not confident with their anti-corruption approach, for example.

Häger, NRW: It's true there's less of a standard for social impact reporting. There are some things you can easily do, like counting the number of people that benefit from a project. But there are other things that are impossible or would take many years, like measuring the effect of a training programme for long-term unemployed people. You would need to follow the participants for years to understand the outcome, and in many cases there are data protection issues, so you can't report at all about it.

But there are a few issuers who report on social impacts. We have taken the first steps into this direction and started to report on the first social impacts of our Sustainability Bond last year and have extended it for this year's impact report.And we're always happy to learn from other issuers — we are looking forward to improve social impact reporting and finding a more standardised way.

Lacaci, Morgan Stanley: A question for investors — what do you prefer in those cases? Just to have more qualitative descriptions?

Wigley: You're right, we're moving beyond numbers, if you like. If you take water, for example, Paris has a lot of water. If you save water it doesn't really have much impact. Whereas elsewhere in France, there's less water, and saving water does have more impact.

So Lars really gave us the key earlier, the answer is not in terms of volume. The answer is getting a baseline. Not just for carbon, but for water and other areas too. That's how impact reporting is going to advance.

Garcia de Eulate, Caja Rural de Navarra: I totally agree. For example, regarding buildings. There's a big demand, and our own framework is based on 'A' and 'B' grade buildings, which I think is OK. But there is much more positive impact from upgrading a building from 'F' to 'D' than there is from financing an 'A' building, because every new building in Europe will already be 'A' or 'B' because of the building codes.

So there is sometimes much more positive impact to get by improving existing assets or activities than by financing those which are already on the top from a social or environmental point of view.

ESSENTIAL ESG SKILLS

GlobalCapital: Do treasurers and investor relations specialists need to be skilled in ESG areas now — even if they work for an issuer that is not a natural green bond issuer?

Andrea Dore, World Bank: Yes, as an issuer, you need to be much more aware of what your institution or company is doing, what ESG policies are in place and how you are measuring and reporting on what you do and how, because investors are asking these questions.

Eibeholm, NIB: Yes, you can't go and see investors without at least having a view on your green or social status and your ESG status. Of course you need to know what your strong sides and weaker sides are when meeting investors.

It's important to distinguish between the green and social projects and an ESG rating, although they are interlinked. ESG is more a risk profile of your organisation. The risks go company-wide.

And then you have your green projects, which are about making deep dives into specific green or social areas of activity. You need to be able to manage both. Of course, if you are an issuer of green bonds, you will typically have a framework that covers the green part. But clearly you need to know what your ESG profile is.

GlobalCapital: NIB has made some changes to the structure of its teams with this in mind, hasn't it?

Eibeholm, NIB: All our projects are assessed against what we call a mandate. We have a mandate for improving the environment and we also do sustainability reviews.

We moved the mandate assessments and sustainability reviews so they are now under my responsibility as treasurer. The reason is that the real progress in the EU Sustainable Finance Action Plan and regulation are really coming from the capital markets side.

A lot of things have happened also on the loan side, with sustainability loans and Green Loan Principles, so it's picking up. But we want to make sure NIB is at the forefront.

GlobalCapital: Eric, if you want nowadays to apply for a job to work in a national debt management office do you have to have ESG credentials?

Ligthart, Dutch State Treasury: When we did the green bond roadshow we of course saw all the ESG teams and green specialists at the investors. But at the same time we became more and more aware that this was not only going to be something that happened just on the green bond roadshow. In the future, when we're doing a roadshow for a 10 year plain vanilla Dutch bond, we will have questions about how we are on track with our ESG performance. It's no longer something only for the specific green product. We'll have to do it with all our dealings with investors.

Winkler, Berlin Hyp: Seventeen percent of our loan book is for green buildings and that's going to be 20% by 2020. Thereafter we'll potentially have a new target. Already now, 15% of our bonds are green bonds, so if we at Berlin Hyp's treasury hadn't a clue about what we were doing in the bank, it would be a huge problem interacting with investors!

What this whole green finance franchise has done to the bank is foster more interaction along the value chain: origination, evaluation and appraising, credit, sustainability management and also, of course, refinancing and funding.

The view of all these different parts becomes more and more holistic. That benefits the funding official or investor relations guy, who goes and meets investors and can talk fluently and really in depth about it.

As Berlin Hyp has engaged heavily in green finance and issued a lot of green bonds, compared to the size of the bank, it has become perceived by many market participants as a green issuer.

Even if I meet a conventional investor who does not care too much about green bonds, sooner or later will come the question about our green bonds and how green finance is done at the bank. So you have little choice but to be educated in green finance, to be able to answer the inevitable questions.

Lars Eibeholm,
Nordic Investment Bank

Eibeholm, NIB: We typically sell to two types of investor. For our benchmark issuance, we traditionally approach the dollar markets, where the investors are typically central banks, official institutions — the ones that actually drive our main funding programmes. And then we have green bonds, which typically make up less than the bulk of our funding. These go more to asset managers and pension funds with long term money.

But it's interesting to see that the Central Banks' and Supervisors' Network for Greening the Financial System (NGFS) have come up with six recommendations encouraging portfolio managers at the central banks to invest much more sustainably.

So it's likely there will be an alignment, and that means even though you are on a conventional roadshow with your globals and benchmarks, you'd better be prepared, because you don't know when you open the door there might be a whole crowd of people from central banks and official institutions asking about sustainability.

Garcia de Eulate, Caja Rural de Navarra: We have the same with non-financial reporting. Most retail banks in Europe are financing a huge part of the real economy, so they are obliged to report and give more information on non-financial factors — regardless of whether they are a green or social bond issuer or not. That obligation, or pressure, is coming from the private sector.

Wigley: It's understood by asset managers that if they do not have any ESG capability, they will not win a mandate from a public pension fund. So having some ESG capability is now crucial.

But asset managers are at different stages. Some don't have any ESG analysts, others maybe have just two and are only able to advise mainstream asset managers what the ESG implications might be.

If an asset manager wants to run a sustainable equity fund, they might need at least four ESG analysts. If they want to add on top of that an ESG fixed income fund, they'll probably have to have a much larger team, divided on a sector basis. You can have your specialists for SSAs, for telecoms, banks and utilities. So the more involved an asset manager is, the more important it is to have the resources.

Asset managers will be challenged on very technical ESG issues by asset owners. So it's very important to have the expertise now.

Aldo Romani,
European Investment Bank

Lacaci, Morgan Stanley: If you don't have the expertise and you rely on ESG agencies for the information, do you get a lot of questions from asset owners on how you use them?

Wigley: The quick answer to that is yes. For an asset owner, it's not enough just to be a signatory of the Principles for Responsible Investment. You've really got to understand the ESG data.

Most asset managers will have an ESG information provider, but the asset owner will want to know how that's interpreted and they don't want an asset manager to just blindly follow it. They want them to think about it, and the asset manager then needs to differentiate itself from the competition. So they need to have something that's a special interpretation and to be able to try and add value in addition to that.

Romani, EIB: This highlights the relevance of impact reporting. The most ambitious impact reporting analysts today are at the funds. They come and spend days in various parts of your institution, just to test that what you say is reality.

This shows how increasingly the holistic approach of ESG analysis and the more focused approach of green bond issuance are converging and generating synergies. Because if you have an ESG strategy you can put it in front of investors by issuing green bonds that shed light on the material result of those strategies.

At the same time, if you want to be seen as issuing green bonds as a strategic instrument, rather than only a marketing instrument, this depends on your capacity to put the green bonds in the context of a strategy of transformation to the new world of sustainability.
So the development of these various aspects is becoming intertwined. This is a very important advance, compared with the discussions we were having only a couple of years ago, when people thought in a really disjointed way about these two instruments.

Dreiman, Länsförsäkringar: There's a great variety of ESG capabilities still in the asset management community.

We work with a lot of external managers — Scandinavian, European and North American — and rate them all on their firm-wide approach to responsible investment, on engagement and also ESG integration. On ESG integration, some still only rely on third party providers. They don't have an in-house view at all, which is not preferred in our assessment.

Wigley: Just to clarify, I was really focusing on fixed income. When it comes to equities, yes, a lot of houses outsource their voting capability. It's a huge job.

Biermans, Rabobank: I've found that some asset managers, particularly in the US, that are too small to service European clients are still under the assumption that ESG stands for "Energy Savings Good".

Wigley: I've had meetings with large mainstream asset managers in the US who have said: "We do not have an ESG capability but we think we should." There's a fear of missing the boat here. In the US, from the west coast to the east, there is a strong interest in ESG and it's growing.

ESG SCORINGS AND RATINGS

Romani, EIB: There is a complication that has hampered investors' integration of ESG considerations: often these analyses are not comparable at all. It makes it very difficult that different ESG rating providers show very different results.

But we need at least the core aspects of ESG analysis to have a high degree of comparability.

Some of these core aspects are increasingly going to be the focus of green bond issuance and the Taxonomy.

The Taxonomy is intended to clarify what are the core contributions an economic activity makes to a certain environmental objective. This is also going to propel ESG analysis forward. Once different ESG rating providers start performing the core of their analysis according to criteria that are shared, it will make their analyses comparable.

Then ESG rating analyses will become more credible, and ESG providers can also add extra criteria, on top of the core ones, for example covering social and governance aspects, and they will become even more effective in that field. So the competition between different ESG companies could start to become productive, because they would start to provide investors with the same kind of core information on fundamentals, plus a series of tailor made criteria.

This could permit investors to clarify their preferences in a more solid, still nuanced way.

Garcia de Eulate, Caja Rural de Navarra: Don't you think we are witnessing a kind of hybridisation between the traditional rating providers and ESG providers?

When we conduct meetings with investors, typically we go and see asset managers. You tend to see two guys, one from the traditional asset management side and a new one from the ESG side.

At some point in the meeting you feel they are asking very different questions, almost as if they were from different institutions. But at another point they come together, which is precisely the point where ESG can affect the credit profile of the issuer.

We know that Standard & Poor's has developed a framework, Moody's has worked on this and has even acquired a stake in an ESG agency , Fitch is doing ESG relevance assessment industry by industry. So it will be very interesting to see how these two lines merge, and whether we see a linkage between traditional credit assessment and ESG matters.

Lacaci, Morgan Stanley: We've done quite a lot of work comparing ESG providers' methodologies and we don't think their approaches are very different. That said, there are a lot of inconsistencies in their reports, and most issuers have only started looking at ESG ratings in the last 12 months.

One of the main providers told us that, a year ago, only 30% of issuers were replying to their emails, providing them with information and reviewing the data. This has changed over the last year and we receive a lot of questions from issuers on how they should interact with ESG rating providers.

It's very different from the process with a traditional rating agency, where an issuer speaks to them every year and some even speak to them every quarter, and provide them with information directly. That's the gap we're missing.

Biermans, Rabobank: I had an issuer who had never actually met their dedicated Sustainalytics person. They'd never connected because the Sustainalytics person always sent an email to info@company.com and it got lost. So I had the pleasure of introducing them to each other.

Lacaci, Morgan Stanley: Agree. Sometimes issuers haven't even seen their own external ESG report. But this is improving, because it's becoming very relevant for investors and issuers to focus on ESG ratings. It's quite a recent development.

Eibeholm, NIB: It's worth pointing out that there is a difference between their business models. Typically the ESG rating providers are investor-driven, whereas the conventional credit rating agencies have been more issuer-driven, where issuers have paid for their services. Many of the ESG agencies have maybe been struggling with their business models.

But now with Moody's and S&P and others coming in, they will be switching towards the same model. And then ESG will be more integrated into risk analysis, which is where it should sit in my view, because it is a risk assessment and not an impact.

Remember, that's the difference. ESG is risk, green or social is impact.

Lacaci, Morgan Stanley: That's a very important point, because a lot of times the ESG providers are too focused on disclosure, versus really understanding how the company or issuer is managing ESG risk, which would be like any other type of risk.

Eibeholm, NIB: Just coming back to you, Chris, you need to know what kind of ESG score you're dealing with, because in my view it's completely different, depending on which sector you are in.

In one sector the E can be much bigger, and therefore you need to assess it very carefully. If you only have one rating, how big is the E? How big is the S? How big is the G?

S&P's ESG model right now is one third, one third, one third, and it goes universally over all sectors. That is problematic, in my view. I think the G is most important. It could be up to 50% of the overall score.

Investors and others need to know what they're dealing with, because if they're just taking a raw score into their considerations they might not know what they're dealing with.

Romani, EIB: This phenomenon of the improving quality of ESG analysis is also due to the fact that, within an organisation, if you start issuing green bonds you automatically take ESG analysis more seriously.

The other aspect is that we are moving away from a market in which the principle of authority dominated. The market used to need to have somebody to say: "OK, this is good. The issuer is good." Now we are coming into a system where official authorities increasingly take responsibility for providing a framework, a yardstick against which the quality of an issuer or a product can be measured and explained.

ESG companies are starting to understand that it is important to have more scrutiny and clarity as to the criteria they follow, so that they can serve the market better and be taken more seriously.

The cross-fertilisation between financial rating agencies and ESG rating agencies is an expression of this trend, with positive spillover in both directions.

Jon Wright,
HSBC

Wright, HSBC: At HSBC we engage quite a lot with the rating agencies and we of course have our own ESG annual report. But beyond that, when we set our new strategic priorities last June, one of them was to improve our Sustainalytics rating from Average to Outperformer by 2020. This highlights the importance of ESG to the organisation.

We do find there are some challenges, such as consistency... The team I work in completes investor relations from an ESG perspective, including the rating agencies and we also co-ordinate the ESG report internally and the governance process.

Romani, EIB: There is also a kind of knock-on effect with the intermediaries. I was asked last week, for example, by a German bank in Frankfurt what I would advise banks to change. I said my personal view was to stop playing with words.

There is already increasing attention to substance, rather than appearance, which is changing the role banks play in their advice to potential issuers and providing them with new business opportunities. But also some issuers have now started to reconsider their strategies.

Maarten Biermans,
Rabobank

Biermans, Rabobank: I'm very keen to learn from issuers, and of course everybody, what are their experiences around green or sustainability influencing the allocation of capital.

Winkler, BerlinHyp: I mentioned earlier that Berlin Hyp has the strategic objective to have 20% of all its loan book green by 2020. And that there will probably be another even more ambitious goal after that.

To do so, there are several instruments. I have already mentioned incentivisation. The next thing is linking bonuses to achieving the goal. It's about incentivising business and staff.

Garcia de Eulate, Caja Rural de Navarra: As an issuer of bonds, I am a liability guy and with that job title I'm not that important. At my bank, those who are on the asset side, where the money is being channelled, are much more important.

For us, it has been an important journey. We began with the sustainable bond, but now it's more about ESG, it's about sustainability conviction. Before the financial crisis nobody cared what you did with the money. Not just bondholders but also depositors or in our case members, as we are a co-operative bank. But now our people in our region ask us much more about what we do and how we do it.

So it's not just a matter of marketing, it's a matter of life as a company. Because we need to be, I wouldn't say loved, but at least liked, by our clients and our stakeholders. If we are not, we are dead.

Häger, NRW: We refinance projects of the previous year out of our state budget with the sustainability bonds. So we cannot claim that these projects wouldn't have taken place without the financing of the bond. But what we can say is that we created attention for these projects and that might protect them in the future, because we will have the debt brake in place from 2020.

Although we already have a balanced budget right now, there might be less scope of action when the balanced budget becomes mandatory by then. Thus, the decision has to be taken which projects will continue and which ones will not. We think we can protect these projects by creating attention for them. And we are generating attention in general for sustainability.

I feel that the general public is now more and more concerned about sustainability. For example, the State of North Rhine-Westphalia has decided to invest sustainably in its state's pension fund. The city of Münster, which is located in NRW, has also decided to invest sustainably, as well as the University of Münster. In the latter case it was introduced after students discussed this issue and employees of the university and others wrote an open letter to the university asking to divest from fossils and to establish sustainable investment guidelines. So it's obvious that the general public is getting more and more into the topic.

Ligthart, Dutch State Treasury: From a sovereign issuer's perspective things work a bit the other way around. We tend, as a government, to think very much about what the financial sector should do and how transparent it should be, and so we already have a very green mindset.

But we thought: if we're asking everybody to do such and such, maybe we should also set an example. So we are using the green bond as a policy instrument. It's not only through words that you're trying to get a policy developed. You're also contributing by issuing green bonds. This was an important reason to issue the green bond, demonstrating that we put our money where our mouth is.

THE GREENIUM

Eibeholm, NIB: In relation to transfer pricing, we are risk-based, and we haven't actually been able to quantify the risk, and hence put a lower capital charge on green projects. However, we do have an environmental mandate rating and we do have a probability of default. For various reasons including lack of historical data, we haven't been able to combine those, but this is what we're working on.

If you can do that, you can lower the capital charge as the risks are deemed lower and then money will flow easily in the environmentally friendly direction.

However, we do have an internal transfer pricing, because we have observed that our green bonds actually sell better than our conventional ones. And we do transfer that premium.

It's not that we have lowered our return on capital target — we have the same return on capital target on the green loans as the conventional ones — but it allows the originators to transfer that premium to the project, to the benefit of the client.

Biermans, Rabobank: But do you see a difference in the cost of capital in the future?

Eibeholm, NIB: Yes. And it's much clearer in a mortgage portfolio as an example. There it's basically ring-fenced, because if you have a pool of buildings with energy classes e.g. 'A' and 'B', it's much better than a class of 'D'E' or 'F'. I would rather buy that because I believe it's a lower risk, and that will also come through data-wise, price-wise — the 'AB' buildings will have much higher tenancy rates etc.

Now, in relation to corporates it's a bit more difficult, because you need to reach a stage where you can say: "how much of the assets or activities are green and can be perceived as lower risks?" But we're not there yet, we still lack data.

GlobalCapital: It now seems quite well accepted that there is a green pricing premium. Some of the biggest issuers know that their green bond curves trade slightly inside their ordinary curves. Should we expect this to grow or shrink, or is it about right at the moment? Is this topic now less controversial? Or are some investors still uncomfortable with there being a premium? And does this now form part of the attraction of the product to potential issuers, or at least allay their fears about taking on extra cost?

Biermans, Rabobank: Any issuer is going to do this, because the main reason is they want a tight trade. I think there should be more than just the price indication, but it helps; it definitely helps.

Garcia de Eulate, Caja Rural de Navarra: It certainly helps. Although from our perspective, it's difficult to say that there is a green premium for sure. Probably more frequent issuers who have a significant amount of data regarding different bonds, can show that there is. However, to prove it, you would need to assess the counterfactual by having two bonds issued on the same day, in the same conditions, one green and one not green, to see exactly what the difference was.

Häger, NRW: We see our sustainability bond as a part of our regular curve since the credit risk is the same as for our regular bonds. However, our order books for sustainability bonds are so oversubscribed that we don't pay a new issuance premium since they price 1bp-2bp tighter. This financial advantage outweighs our additional costs through the SPO and impact reporting which you also have to keep in mind. Another advantage for us is that we attract different investors which would not buy our regular bonds. That means that our sustainability bonds allow us to diversify our investor base.

Dore, World Bank: An issuer shouldn't embark on the project of issuing green bonds if they are doing so hoping for cheaper funding. We've seen various types of analysis but in each case, there isn't an "apples to apples" comparison. The size of bonds that are being compared to other bonds on "the curve" are generally much smaller, or currencies, maturities and time of issuance are different, so noting that there is a difference is not adequate and will require more data analysis over time. Issuers have the opportunity with green or other labeled bonds to engage with investors around their ESG risks and policies, purpose and impact and be more transparent in their reporting.

Lacaci, Morgan Stanley: We had one example of a company that issued two tranches, one sustainable and one not sustainable, on the same day. The maturities were different but the longer-dated, sustainable one came with a tighter new issue premium, so we actually had evidence.

We have tried to quantify the 'greenium' and it's, on average, a couple of basis points, but it's not in every single transaction or for every issuer. If you don't have similar transactions on the same day, it is difficult to quantify.

What you do see is a demand/supply imbalance, which means you tend to get higher oversubscription levels for green or sustainable bonds. Therefore, you're able to probably tighten by a few basis points more. Is this going to be larger in the future, considering that the credit risk is the same, if we don't ringfence the assets? I think it will be around this level.

Wigley, Mirova: I have to fight the corner for investors here. We've got to be clear what we're talking about. We have to be quite specific, whether we're talking about secondary markets or primary markets.

In the secondary markets, it's probably true there are some issues that might trade 1bp or 2bp more expensively. There are certainly some issuers that trade 1bp or 2bp more cheaply as well. A good portfolio manager will be selling the expensive ones and buying those that have relative value. That's the secondary market.

In the primary market, what we're really talking about is the new issue premium. Investors have a range of views. Some would say: "Providing there's a significant additional yield compared to the secondary market, I'll be happy to invest."

Christopher Wigley,
Mirova

Other investors, like pension funds, will drive it home to asset managers just how much money 1bp means to them. So they will be very, very particular about pricing. And if anyone says that green bonds trade more expensively than conventional bonds, it makes it a very difficult job to bring pension funds into the market.

Winkler, Berlin Hyp: For whom is this really important? For as long as we have been active in the green bond market there has always been a discussion about whether you can fund yourself 1bp or 2bp more cheaply or not.

I can understand, as Lars said, that this can lead automatically to transfer risk pricing for certain products and projects.

In our case, the level of the overall funding provides a basis for the lending rates of the bank. And then our corporate strategy is to do more green finance than conventional business. So we have said: "OK, let's grant a discount for green loans."

That means I do not need any transfer pricing from the bond. Because in the end, they price where the offer and the demand meet. And it's quite logical if I have additional investors on board in a green bond, in comparison to a conventional one, and it leads to a bigger order book, that I might have the possibility to tighten the pricing.

But at the moment, for us, I do not find it material.

Eibeholm, NIB: I'm a big fan of risk and returns going hand in hand. Yes, there is a clear momentum now, in the sense that there are more investors than supply. To a certain extent, this drives the price differential.

There is a risk if that grows too much. Then you will get participants in the market who shouldn't be there, because they'll have a financial interest in participating.

What gives me comfort today is that there is not a lot of financial incentive. So if you're engaging in green or social bonds, it must be because you have good intentions and you really want to demonstrate the effects of the impact.

Now, if your green investments reach a certain stage that they actually change your business model, they change your risk profile, then different pricing is justified. That gives the link back to the issuer's ESG rating — by doing these deep dive investments into the green projects you can actually change the risk profile.

Lacaci, Morgan Stanley: Then your whole curve tightens, not only your green bonds.

Eibeholm, NIB: Yes.

Lacaci, Morgan Stanley: That's the key question — whether at some point issuers can benefit from having a more sustainable business model. And then it's not only about the difference between green and vanilla, but about the difference between you and your peers.

Winkler, Berlin Hyp: In five or 10 years' time, those who are not able to issue a green bond or don't have the eligible assets will have to justify it somehow, and might have difficulties finding investors at all.

GlobalCapital: Like an energy company?

Winkler, Berlin Hyp: Yes, or maybe a bank that is simply not interested in financing energy-efficient buildings, but rather the old stuff. It might really struggle to attract investors.

But coming back to the green premium, the point I wanted to make was that, at the moment, it's not in itself leading to a situation where a potential green bond issuer decides "Yes, I want to enter into that market" or "No, I won't."

Dreiman, Länsförsäkringar: We have an annual objective in 2019 to have 4.5% of our total AUM in green bonds. That doesn't mean we buy any green bond in the primary market, because sometimes you have a greenium that is quite significant compared to the issuer's normal curve. So we're still selective.

But having a close dialogue with the issuers you prefer is also helpful, in relation to the pricing discussion, because with green bonds, you also receive a type of impact reporting. And that's something worth adding to the pricing discussion.

Romani, EIB: Investors know there is a market mechanism in place that secures the best possible price. And if this price is better for the issuer than the conventional curve, it is justified, because there are more investors paying attention to positive impact.

There is another question you put that I found interesting. A number of banks increasingly are categorising investors into green and non-green, adding green-related criteria to their allocation policies as lead managers.

One example is DZ Bank, which is developing a system that permits automated allocations based on a captive database and ESG criteria selected by the issuer from a menu.

This for us was not relevant in the past because we always said: "The more demand you have, the more you can issue. The more you issue, the more transparency you create, and from that point of view it is a positive contribution."

Now that demand is accelerating and the gap over supply is growing, we are also becoming more attentive to what we consider key, which is developing an investor community that is more consciously looking at these aspects, the green demand. There are dedicated funds, for example, that look at green bonds, not just as a financial instrument, but paying detailed attention to the additional green connotations.

One very important issue: you may think that a couple of basis points is not relevant, but it is a signal that things are changing.

So if you move fast, and you are a better swimmer than the others, this will be recognised, and this will give you some sort of advantage or competitive edge, that will become even more amplified, because the awareness in the public and private spheres is growing.

THE HAND OF THE STATE

GlobalCapital: To your point about the market making things happen in a good way, governments can also make things happen by legislating in favour of green finance. Are we in favour of, for example, risk weights being tilted in favour of green assets?

Wigley: It is very important to have a level playing field. As soon as certain institutions have an incentive to buy a certain asset that other institutions don't have an incentive for, then you don't have a level playing field and it prices certain entities out.

So if you have lower risk weights for banks, what do the pension funds and insurance companies or charities do? My sense is that incentives should not be for investors. The incentives should be for issuers to become more green.

Bodo Winkler,
Berlin Hyp

Winkler, Berlin Hyp: Even then it depends on how you do that. In the end, coming back to our market — mortgages — the risk weight should reflect the risk in the asset. That should not be reduced artificially, just because it is a green asset. It sets the wrong incentives.

Biermans, Rabobank: Aldo is right in saying there is so much happening in the investor base. But we now have issuers saying: "We would like to see the database of investors to see how green they are. And when it comes to offering investors chunks of the new issue, we only want the green ones and they will get the best treatment."

Now when it comes to the risk, green supporting factors in risk weightings are like the green elephant in the room. What is going to happen? A solar park is not inherently less risky than a cookie factory, but because of the EU we are on the verge of treating it like that. When we have a green supporting factor, there's going to be a completely different game.

So I would love to hear from people who know about green supporting factors.

Romani, EIB: Any kind of supporting policy for green finance needs to be based on two preconditions. One is credibility. The second is reliable collection of comparable data.

This is the reason why we have engaged with a number of peer institutions from an early stage of the market, first trying to develop a platform for harmonised impact reporting rules, and then engaging very heavily in the classification debate.

How these supporting measures should be implemented is a question that should be left to official authorities that we have absolutely no control of.

What we have responsibility for is securing as much as possible a path towards the development of these preconditions. If you have any kind of discussion with regard to climate-related financial reporting, be it on the risk or the impact side, it's up in the air until you can classify your activities in a coherent and consistent manner and start collecting information that provides evidence of different impacts and risks.

Eibeholm, NIB: For now, where we are today, with more demand than supply, I don't think we need incentives in the bond market. But we need incentives in the real economy to make sure we get more assets, more green investments, so that we can balance supply and demand.

We need to take away brown subsidies and governments and others need to think about how they spend their money and allocate their budgets towards the real economy.

Now, in relation to what the market should do, I think it is important to bear in mind that the Task Force on Climate-related Financial Disclosures is thinking heavily about transition risk. That means a fast and disorderly transition to the low carbon economy.

As I see it, that is when the market suddenly realises a group of assets is not sustainable. The idea is that the market, through further climate related disclosure, should start pricing that already.,

And if that happens in a fast, disorderly way, it could create some issues for financial stability, which is what the TCFD is highlighting.

Garcia de Eulate, Caja Rural de Navarra: On the subject of incentives, we have the precedent of the SME sector. There has been a study on the relationship between SMEs and lower risk. I don't see it that clearly but it has already been implemented into the Capital Requirements Regulation.

But my main point is that I'm quite sceptical about the effects that a reduction in capital requirements would have for a greener, more social economy.

I go back to my original point — we are not the asset owners. We are either asset managers or banks, and we might have a fiduciary duty. But the asset owners at the end of the day are families, SMEs and corporates. And, for me, there is a clear political game here. If you want to reduce the impact of buildings in Europe, which account for 40% of CO_2 emissions, you have a powerful tool. It's called a carbon tax. If you act with buildings as you act with cars, you probably will get decisions by asset owners that will change dramatically.

But then you get politically hot questions about how the population is going to react to these kinds of taxes — we've seen the *gilets jaunes* in France, for example.

So we can be helpful as a financial sector, but we should not be too boastful about our potential to change the real economy, because the decisions are not taken by us. It's society and the political body of citizens that have to take the decisions.

Andrea Dore,
World Bank

Dore, World Bank: Government can play a crucial role in market development and making markets more efficient, so providing incentives for green investments can help further develop the green/sustainable markets. However, this must be done carefully to avoid unintended consequences and should be focused on transparency and creating a level playing field in pricing. Also, it shouldn't take away responsibilities from the private sector – they have a crucial role to play in developing sustainable capital markets.

EU SUSTAINABLE ACTION PLAN

GlobalCapital: Aldo, tell us about the latest developments with the European Union's Sustainable Finance Action Plan.

Romani, EIB: There is an ongoing thread throughout our discussion today — transparency.

The first priority of the EU Action Plan is to find a shared way to address sustainability in the economy. But how do you want to add to something if you do not know what you have to add to? The Plan, and especially the Taxonomy, will push forward disclosure of the impacts of economic activities, but also disclosure by government of clear policy signals.

The European Commission has delivered something that nobody else could deliver in a market-based economy like ours — a broad, consensus-based process that should lead to the definition of a shared way to go forward. It is establishing a classification framework that everybody can use to become active and improve things within their own organisations.

At the same time, it is empowering the market with the capacity to monitor how things change over time via credible and reliable financial instruments, green bonds in the very first place.

Finally, it is creating the level playing field that is required for fair competition, it is helping the market to work better.

On this basis, I absolutely agree with Bodo and Lars that a different risk weight factor would not suit green bonds, whose risk is the risk of the investor as a whole. Still, green bonds are developing into trustworthy instruments of clarity and accountability, so there is an incentive to support them in other manners to facilitate impact measurement and reporting.

Garcia de Eulate, Caja Rural de Navarra: I am totally in favour of this 'push' from the capital markets to the real economy. But I am asking also for a 'pull' from the real economy to the financial sector.

I think the real economy will help if it makes a clear drive towards more sustainable investments. But the asset owner in the real economy has to have an incentive to do that. The incentives should not be only given to the financial sector — both sides can share this incentive.

But when we come to the point when decisions have to be taken, I understand that some of them politically are not that easy.

Romani, EIB: Absolutely, but at the same time public awareness is growing. The consensus-driven approach of the EU Action Plan will clarify to society, with credibility, what is actually to be striven for. And this will enhance the support of society, especially if you take a broad definition of sustainability.

In this framework, you have two main forms of sustainability that policy, finance, real economy and civil society can consider. One is public debt — the intergenerational distribution of wealth. The other is environment — the intergenerational distribution of natural resources.

Unlike with public debt, where you can have different ideological opinions, I think everybody recognises increasingly that the environment and other social issues that are officially considered part of sustainability are shared by everybody in society.

So the fact that there is a new Commission in place will not change the direction taken by the previous one.

GlobalCapital: What should we be expecting from the Action Plan?

Romani, EIB: A better working market — this is crucial.

GlobalCapital: But does anyone worry that the Taxonomy that is a key part of the Plan is too strict?

Wigley: There are two aspects to this. One is that we needed a Taxonomy. As soon as the French Republic issued a huge green bond, followed by Belgium, Ireland and the Netherlands, central banks and sovereign wealth funds began to buy green bonds in size. It's so important that we have a Taxonomy, to ensure there are minimum standards in the market. So this is a step forward.

But we do have to be careful how we do it. We've always been walking a tightrope in the green bond market. There has to be enough flexibility in it for innovation. It's just a matter of applying common sense.

Eibeholm, NIB: I hope this will open up the green bond market to new types of issuers, including those transitioning towards green.

Wigley: This raises an interesting question: what happens for a non-EU borrower, such as a US company? If they want to issue a green bond, will they ask if they have to follow the Taxonomy. Or if they want to issue in euros, do they have to follow the Taxonomy?

Cristina Lacaci,
Morgan Stanley

Lacaci, Morgan Stanley: Would you prefer if issuers followed the Taxonomy?

Wigley: I'm a big believer in setting a good example. Over the history of the green bond market, the likes of the EIB and NIB and the World Bank have all set very good examples as to what to do. Others have followed these examples, and as a result, the green bond market has thrived. So if the EU Taxonomy is well thought through and well considered, then why not? But it shouldn't be too restrictive.

Lacaci, Morgan Stanley: The Taxonomy is going to start by defining green projects. So if you issue a sustainable bond, you could have a mix of green projects that follow the Taxonomy and social ones that don't.

Wigley: The Taxonomy will cover social matters as well, but later.

Lacaci, Morgan Stanley: In a few years' time, if I understand it correctly. How should we structure bonds in the interim?

Romani, EIB: We had this discussion in the sub-group of the Commission's Technical Expert Group, which deals with the Green Bond Standard. First of all, it needs to be clear that you only have to abide by rules if you want to be labelled as compliant with the EU Green Bond Standard. Secondly, for areas of sustainability where the Taxonomy is not developed yet, the issuer is still king.

The only important thing is that the issuer should describe what it intends to do using the language, the logical structure of the Taxonomy.

The idea is that you should not have regulation alone, but also a dialogue between markets and public authorities that develops in the course of time and permits the market to voice its own criteria and considerations for discussion.

So social issues are going to be addressed through the same kind of consensus-driven approach that we have already seen for climate issues, with markets contributing substantial elements for reflection. When a Taxonomy is put in place for them, it will not be that anything done before that is not in line with the Taxonomy is taken away — absolutely not, there will be a grandfathering.

There is a long way to go. The future will involve the industry of external reviewers and verifiers developing and providing knowledge, which is not yet available in an uncontroversial form. But it is a very dynamic process that is full of opportunities for those engaging.

One last thing I would like to highlight: Maarten and I have pleaded in favour of the Green Bond Principles having a role going forward, in facilitating the comparison between multiple standards. This is important, because the priorities in different parts of the market are different. What you need is to provide the market with the ability to compare products, so it can decide in an informed manner. And this is what is being delivered, I think.

Andrea Dore, World Bank: This is certainly a concern. We would like to see a taxonomy that is flexible and inclusive enough for the range of eligible projects currently being funded by green bonds, including in emerging markets since these are part of the solution.

We would like to see the standard remain voluntary rather than enforced though legislation or regulation. If the green bond market had started with strict rules and regulations it would not have been able to develop to where it is today. So, it's important that the standards remain voluntary, as opposed to a strict regulatory process. In my view that would hinder progress as opposed to helping it. Flexibility, inclusiveness and recognizing the differences between certain markets and countries are important.

Therefore, market transparency and the self-regulatory nature of the market should remain key.

Romani, EIB: This is exactly the view that we have been contributing to the Commission's High Level Expert Group. Also, for example, ICMA's Green Bond Principles are present in the discussion. The banks are present, the issuers are present, the investors are present. They are all very much part of this process.
The idea has been, from the very beginning, to try to find a common approach to classification, for example one that can be shared with China, so that accountable cooperation across jurisdictions and cross-border capital flows can develop.

So the idea, which is by the way a G20 idea, that you do not need a one size fits all approach at once, but rather agreed internationally comparable indicators as an intermediate step is definitely in the DNA of the ongoing process managed by the Commission. It is also embedded in the architecture of the Taxonomy, which is standard-neutral in its architecture and precedes the definition of standard-specific significance thresholds.

The real condition for effectiveness is that market participants should be willing to clarify their preferences using a common language, so that different views can be compared.

The market will then be free to make decisions that will take things forward in a market-driven way.

GlobalCapital: As we have a sovereign issuer here, I'd like to ask you, Eric, whether you enjoyed the process and would you recommend it to other sovereigns?

Ligthart, Dutch State Treasury: Well, we weren't the ones that invented the process. We were fourth or fifth in the line of euro issuers, so that made life easier, but still we had lengthy internal debate, a political debate on whether or not to do it.

But in the end I think we're comfortable with the decision we made — we used it as a policy instrument to green the financial markets. You have to practice what you preach. And we would very much like other sovereign issuers also to enter the market. Sovereign issuers add volume to the market.

But the green bond market shouldn't be a sovereign issuer's market. You need a lot of variety of issuers, so we're very much looking for corporates and other issuers also to enter into the market.

GlobalCapital: Was that part of the belief when you were doing it, that it would act as a door opener for others? Or was it a more politically motivated decision?

Ligthart, Dutch State Treasury: We embarked on the process with the aim of enticing other issuers also to consider going green.

But it wasn't a top-down approach. Of course you need political leadership willing to go forward — that was necessary — but we were also willing to embark on the process. It's a lot of work, yes, and you need a lot of managerial attention. You certainly can't take things lightly, and think "we're just going to issue a green bond and that's a nice gimmick". You really have to go through with it all the way.

And while it's not so much a financial cost, it does take a lot of attention of the organisation.

Eric Ligthart,
Dutch State Treasury Agency

Eibeholm, NIB: We have a research-working group at the Green Bond Principles focusing on what the benefits of issuing green bonds are.

One of the findings is exactly what you alluded to. When you have been through the process you can see the light at end of the tunnel, because a lot of this is around building capacity. We all know our economy needs to change, and we need to reduce our emissions. So it is a transition, and sovereign green bonds are just illustrating that governments are supporting these changes.

In the same way, I think what we will see from the EU is a Taxonomy that will be a quality standard with high thresholds potentailly difficult to reach for many issuers, but that's the whole point.

If we are to move and make genuine changes, we need a guiding star. We need something that's best in class, something to strive for. That is what is going to drive the market forward. ▲