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The LBBW public sector issuers' roundtable 2021

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SSA market demonstrates strength and resilience

The European Union's €800bn NextGenerationEU borrowing programme captured much of the focus and attention in the sovereign, supranational and agency bond market in 2021 — but beyond the splash the European Commission made, many of the market's most frequent and well-established borrowers also stood out, harnessing deep and broad investor demand to help them innovate and fund successfully across their curves. As we move into 2022, inflationary pressures and monetary policy direction in the US, Europe and the UK, are high on issuers and investors' radars, but will these macro-risks disrupt the market? *GlobalCapital* discusses this, together with the key trends and developments that shaped SSA issuance in 2021, with some leading participants from across the market.

Siegfried Ruhl, European Commission

Mathieu Buehler, UBS

Patrick Seifert LBBW

Silke Weiss *European Stability Mechanism*

Dietmar Hornung, *Moody's Investors Service*

Tom Meuwissen, *NWB Bank*

Jörg Graupner, *KfW*

Participants in the roundtable were:

Siegfried Ruhl, counsellor to the director general for budget at the European Commission

Silke Weiss, head of funding and investor relations, European Stability Mechanism

Jörg Graupner, vice-president, treasury funding, KfW

Tom Meuwissen, general manager of treasury, NWB Bank

Mathieu Buehler, director, high quality liquid assets portfolio, treasury asset and liability management, UBS

Dietmar Hornung, associate managing director, head of the European sovereign team, Moody's Investors Service

Patrick Seifert, head of primary markets, LBBW

Richard Kemmish, moderator

GlobalCapital: Siegfried, the biggest success story in the SSA market in 2021 has been the European Commission and the massive increase in borrowing that you have had to do. Looking back, how does the outcome compare with the plan at the beginning of January?

Siegfried Ruhl, European Commission: At the beginning of 2021, we had an exciting and interesting challenge in front of us. In 2020, member states agreed on the NextGenerationEU (NGEU) recovery instrument as a tool to not only overcome the crisis caused by the pandemic but also to support the green and digital transformation of the European economy. NGEU is a sign of the European strength and solidarity.

As part of this, the Commission services — and its budget department in particular — were asked to design and implement a funding strategy and toolbox to finance NGEU from the capital markets. What does it mean in numbers? Up to around €800bn is to be funded over a period of 5-½ years, which means on average €150bn funding per year, and about 30% of the total will be raised in NGEU green bonds.


Siegfried Ruhl, European Commission

We had to find a way to make this possible, so we started to work on a sovereign-style funding strategy that included large benchmark bonds across the curve. We also added EU-bills as a new instrument to access the money market and had to work on a green bond framework to be able to issue NGEU green bonds. In addition, we had to select and implement an auction tool to be able to do auctions, and this needed to be supported by a strong primary dealer network which we had to put in place. So, this was the ask at the beginning of 2021.

What has happened since then? We started with a primary dealer network of 39 banks, which has now grown to 42. Then in June 2021 we issued the first NGEU bonds, following that up with EU-bills and bond auctions in September. Finally, in October, we issued our inaugural NGEU green bond.

Looking back, all trades went extremely well, so it was a very successful year. This was only possible thanks to a great team here at the Commission, which was supported by seconded national experts from DMOs [Debt Management Offices] and thanks to a good co-operation with our peers who supported us in exchanging views and sharing experiences. I would like to mention here the ESM [European Stability Mechanism], the EIB [European Investment Bank] and the DMOs, who were a great help with this, as well as the ECB, which is running our accounts, and Banque de France, which helped set up the auctioning infrastructure.

GlobalCapital: For the other issuers, €800bn over 5-½ years — with 30% in green bond issuance — is a huge change to the environment for SSA bonds. As ESM was mentioned, Silke, I'll start with you. How has this influenced your funding plan? Has it made your job more difficult, or are there ways in which it made it easier?

Silke Weiss, ESM: We easily completed our quarterly funding needs, which are, compared with what the EU has to fund, relatively small; we have €16.5bn to do for the year for the EFSF [European Financial Stability Facility] and €8bn for the ESM. We also continued our activity in the dollar space. The ESM was again active in US dollars, with one transaction. It's a strategic market presence we have in US dollars and we continue to be active in this space.

Looking at NGEU as a whole, it has really boosted an already well-developed market. It certainly created more focus from investors to this space that we are all benefitting from. And it definitely has been an accelerator and a great tool to have additional euro safe assets in potential portfolios for investors. All in all, I see this as a very positive development and not a negative.

GlobalCapital: Turning to you, Jörg, has KfW found that its funding has been influenced in any way in 2021 by the NGEU?

Jörg Graupner, KfW: The EU is only active in the euro market, while our funding strategy is based on a broader mix of instruments to achieve our funding target. Of course, our home currency is the euro, and the share of our euro funding is around 50% (€40bn in 2021), but we also issue in other currencies such as US dollars and sterling in public format, and in many other currencies via private placements.

Reflecting on the euro market, of course the EU influenced our activities. For instance, we had to navigate our primary market activities around the issues from the EU. But we found our windows, and very successfully. Importantly, the EU brought more attention to the euro market and we all benefit from it.

GlobalCapital: Historically long dated issuance has been a trademark of NWB Bank. NGEU has been particularly present in the long part of the curve. How has that affected you and, overall, what were your funding highlights of the year?

Tom Meuwissen, NWB Bank: The EU definitely did not have a negative impact on the market. We saw no distortion, which might have been expected due to the huge amount that was issued. As such, I think it was very well absorbed. In fact, I didn't see any impact at all on our own funding or on our pricing.

For us, we have a natural need for long-term funding due to our clients being long-term borrowers. In 2021, we were very successful in issuing ESG bonds at the long end, including 16 year and 25 year SDG [Sustainable Development Goal] housing bonds for €500m and €1bn, respectively, and a €500m water bond with a 30 year maturity. All of those deals were oversubscribed with tight pricing — sometimes even through fair value — so in that sense, they were all very successful indeed.

Overall, I think the impact of the EU has been very positive. I can't think of anything negative.

GlobalCapital: Silke, you had to cope with another

uncertainty, which is the pandemic crisis support mechanism. How do you build in the flexibility to your funding for that uncertainty?

Weiss, ESM: It's correct that this uncertainty was there from 2020, when we implemented the pandemic crisis support facility. But this was not the only element that creates changes to our funding plan. I would highlight that, come 2022, and the treaty ratification of the ESM, we will also become the backstop of the SRB [Single Resolution Board], which may bring about changes in our funding plans.

For now, nobody has requested pandemic crisis support. The facility remains open until the end of 2022. However, it doesn't look like anyone will be needing this, given the cash and the liquidity that the Member States are getting from the NGEU instrument. So, it doesn't look likely, let's put it this way.

When it comes to the SRB, given that we are in the process of getting the ESM treaty ratified, nothing has happened yet. Our funding plans, which are published, remain unchanged.

GlobalCapital**: Jörg, there a couple of very interesting developments in KfW's year to highlight. The first is the amount of ESG issuance in 2021 — essentially double that of previous years. The other development is KfW issuing a syndicated 15 year bond for the first time. What was the thinking behind both of those developments and how have they gone?**

Graupner, KfW: Our green bond issuance was a very successful story in 2021. First of all, we can only issue green bonds based on the disbursements under the underlying loan programme and we were very pleased to note that the demand for the programme for energy efficiency was much higher than expected and much higher than in previous years. So that got us in the position to issue more than €16bn-equivalent in public and private transactions. In our entire funding mix, we were able to offer green bonds to a very broad spectrum of investors.

At the longer end, the current interest rate environment and the associated demand from investors made us chose the 15 year part of the curve in benchmark size. The bond was issued with a positive yield of around 38bp. It is worth highlighting here that we are a bank and not a sovereign, so our capacity to issue longer dated bonds is very limited. Our funding is closely related to the nature of our loan business and so we have to keep a narrow corridor on the tenor side. Ultimately, it was a good and very successful transaction for us at the longer part of the curve.

GlobalCapital**: Mathieu, turning to you, how have your investment priorities/asset allocation decisions changed in response to 2021's developments in the SSA sector?**

Mathieu Buehler, UBS: Two big trends you have already touched upon have had significant impact on our portfolio. First, we have continued growing our ESG direct investments substantially over the past year, which has been aided by the significant increase in ESG issuance year on year. Through this, the issuers with a credible and strong ESG framework and regular issuance will have gained in allocation, relatively speaking.

Mathieu Buehler, UBS

The second big trend in the market was a lot more challenging to us. Early in 2021, in particular, and until Q3, we saw many issuers tapping the primary market at the long end (10 year) of the curve, which became almost standard. By comparison we saw virtually no three year new issuance and only a few five year transactions. This has given us less opportunity to add through the primary market.

GlobalCapital**: Dietmar, we have heard some very positive things about the funding over the course of the year. From your perspective, as you look back at 2021, how do you see the SSA market overall?**

Dietmar Hornung, Moody's Investors Service: In our view, 2021 has been a very successful year for SSA issuers in terms of issuance volumes, but also in highlighting the importance of the sector in fighting the pandemic situation.

When we look at European supranationals, there were no rating or outlook changes in 2021. The sector has proved to be resilient to the situation and we see stable developments with respect to capital adequacy, liquidity but also member state support.

We have already talked about the European Union and how it has changed as an issuer in terms of issuance volume. That said, we have maintained the Aaa rating with a stable outlook for the EU, reflecting the safeguards that are in place to secure the backing of its Member States — in particular the strongest members — notwithstanding the material increase in debt expected over the coming years.

Asset performance of supranationals has so far not been significantly affected by Covid-19. We will see whether such risks crystallise in 2022.

Overall, SSA is an asset class that, in my view, will gain further importance. It's also an asset class that in terms of credit profiles is very resilient, and European supranationals are typically very highly rated in either the Aaa or the Aa space.

GlobalCapital**: Patrick, clearly the big story of the year has been the Commission. There has been a lot of debate in *GlobalCapital* and elsewhere on the point about whether we should treat it as a government or an agency issuer. Is that just semantics or does it make a difference?**

Patrick Seifert, LBBW: I think investors have been answering this question for themselves by voting with their feet. If you look at the size of the deals and their order books, the reception has been extraordinarily strong. Siegfried mentioned the new instruments that have been introduced that certainly resemble the way that govvies operate. Let's face it, becoming the biggest green bond issuer globally is quite a statement. From this point of view, I think it is offering a very safe and extremely liquid reference that is filling a void.

Does the Commission remain temporary or are they a more permanent issuer? I think there is potential for them to be permanent, given the context of European integration, and EU capital markets union, for instance.

GlobalCapital: You mentioned earlier the very large order books. There have been some extremely large order books, some very heavy over-subscription. What would you say is driving that?

Seifert, LBBW: In the past, people complained when order books were too small, so from that point of view, it's a luxury having to deal with that. At the end of the day, as an issuer, you want to ensure your bonds end up in the right hands and you have good visibility about the composition of your order books. You cannot blame the Commission for being too successful. It reflects the strong confidence that investors have in Europe.

Patrick Seifert
LBBW

In addition, if you get involved in a lot of credit products, you need SSAs as they provide liquidity, stability, and they provide duration. That's a distinct quality of high quality SSA issuers. Last but not least, something that has become quite visible in the last couple of days, is the lack of high quality collateral because of the ECB buying. That has been a driver. That ECB buying has been providing a backstop for investors to get involved and make some money on a short-term horizon.

GlobalCapital: Siegfried, as Patrick quite rightly says we can't blame you for your success, but it's also important that the bonds end up in the right hands. You've seen some very spectacular oversubscription. How do you approach such a heavily oversubscribed book in terms of making sure that the bonds end up where you want them?

Ruhl, European Commission: Large order books in terms of volumes but also in terms of number of investors make it important that you know your investors. It's also important to be have a close and good relationship with your investors to be able to place the bonds in the right hands.

The general process is not affected by the size of the order book as it is also determined by the rules — you classify your investors, you set up allocation rules and you follow them. It was challenging at the beginning but also over time people got used to that.

So, overall, while the allocation of such large order books is sometimes challenging, it is good for the European market and while we have seen significant order books for our transactions, it's not only us. All European issuers have seen strong demand for their bonds, and this is a very positive observation in 2021.

GlobalCapital: Jörg, you've also seen some very nicely oversubscribed deals. What is your approach? And when you see these books, do you have a feel for how price-sensitive the book is?

Graupner, KfW: From a technical point of view, we now have around 50 more investors in our euro order books compared with the past. In total this means between 160 and 180 investors. Based on our own database, and also based on our conversations with our dealer banks during a transaction, we are able to categorise the investors and we are able to handle the bigger number of investors and the oversubscription very well. It would be wrong to misinterpret oversubscription as less price sensitivity — this is absolutely not the case. A new issue premium and/or a confidence to buy a bond with attractive performance prospects is one of the main drivers for investment decisions.

Weiss, ESM: Siegfried already mentioned, and Jörg summarised nicely, that it is a challenge — especially when the market is quite busy with lots of us out at the same time, even amid volatile markets.

I would add that it is really critical that you can allocate your investors in the proper way and that you need to know them. That means you have to know what their investment strategy is and why they buy at certain points of the curve. What we have worked on over the years is to establish a very trustful relationship and make sure that everyone understands what the ESF and ESM stand for. By this I mean what we are doing at each moment in time, and that they know how we act, that they can trust us, and that we will allocate and price fairly.

Silke Weiss
European Stability Mechanism

In terms of the sensitivity, there are always investors who are more transparent in their orders and where they are willing to buy and where they will drop. I wouldn't say that anything has changed in light of heavily oversubscribed order books. There is more or less transparency, it's really down to the relationship we have with investors.

GlobalCapital: Tom, is it the same with the longer dated investors?

Meuwissen, NWB Bank: Allocation is mainly an issue with the ESG bonds as there is huge appetite for them and you are also less flexible in raising the size of your deal. When you do a normal deal and you say benchmark size and you have an order book of €4bn, then you can say 'OK' and issue €2bn. With ESG you are more limited because of use of proceeds format, so that can be a challenge.

On the price sensitivity, of course you can see that during the bookbuilding — which are at re-offer and which are limited — but actually from experience you know certain investors put a limit price on an order and then you tighten beyond that and they stay in the book or even increase their size, so you know how investors behave.

Allocation is definitely an issue. Sometimes it is not so nice — there is such quality in the book that you want to reward everyone for what they put in and that's not really possible.

Tom Meuwissen, *NWB Bank*

GlobalCapital: **Patrick, you've heard your issuers who have all had some very oversubscribed books and you've been involved in some very heavily subscribed transactions in 2021. What is your advice to issuers both on the day, and more generally, on their approach to this?**

Seifert, LBBW: I would add a quick comment to what Tom said. Price sensitivity is a dynamic feature of an order book. It's not the case that because there is a number, an investor will stick to that. They might review their spread limit to the downside if the deal is going very well, and if they are optimistic that the transaction will perform in the secondary market. The opposite is true too, though, if their expectations become less optimistic. This is a crucial part of the order book and bookbuilding process and you need a lot of understanding of the rationale of investors to be reading between the lines.

In terms of advice, I think we've heard it from four issuers — this is about knowing your investor base and how you want to serve this investor base. Thinking about your investor base, understanding your investor base, and listening to your investor base is definitely the advice that has worked extremely well in 2021.

GlobalCapital: **From an investor perspective, what is your approach when you know that a transaction is going to be oversubscribed? How do you manage your order?**

Buehler, UBS: We have seen this quite a lot, particularly early in 2021 until Q3. First of all, as a real money manager, it's always real orders that we are putting in. To a certain degree I prefer to be in bonds that are seeing a lot of demand, that is a good sign for us.

GlobalCapital: **For NGEU in particular, syndications have been well subscribed. But are auctions more effective? How do you arrive at the right balance between the number of deals you syndicate and the number of auctions?**

Ruhl, European Commission: The right balance is not a static number. It can change over time. Auctions and syndications are two issue formats with different pros and cons, different risks and costs. Syndications have a lower execution risk; you place the bonds in larger volumes directly with the investor. An auction is quite an efficient way from an issuer perspective to bring bonds to the market. You support secondary market liquidity with an auction, as the primary dealers who buy the bonds then have to manage and warehouse the risk. It's quite cost-efficient, and the internal effort is small, yet you have a higher execution risk and usually you can do smaller volumes with auctions.

So, what is the right balance between auctions and syndications? It depends on your issuance needs and the market conditions.

We announced that we would have one syndication and one EU bonds auction per month as a general guide. What the balance will be volume-wise we have to develop over time and adjust it to our funding needs and the market conditions. We started just two months ago with the first bill auctions and the first bond auctions, so some time is needed to gain experience and find the right balance. We have to build what I usually call an auction culture for EU bonds. Sovereigns that are doing this have been doing it for decades, so we have to build this for the EU.

Weiss, ESM: I think what is really important when it comes to auctions versus syndications is that you manage the expectations and that you are predictable, and investors understand you. A bit of stability and predictability will be helpful. Then it will become much clearer how to read the EU and how to have this auction culture that Siegfried was mentioning.

GlobalCapital: **Silke, you have long had a successful bill programme. How has that fared over the year? Has it been successful?**

Weiss, ESM: As you know, the ESM mandate is to support euro area countries who might have lost market access and also in future to support the backstop of the SRB. So that means we have to raise money quickly in times when market conditions are more challenging, and we have to be very flexible in our approach. So, the bill programme helps us to fulfil our mandate. It gives great flexibility to access the market. Since April 2020, we have been auctioning bills in three different maturities. We have bills on offer at three, six and 12 months.

We see the recent very high demand in the auctions in the form of the bid/cover ratios but also in terms of record low yield as a sign of the strength of the market segment — particularly the interest over the term in the auctions that we have done. I can quote a few numbers here to put things into perspective. In 2020 the bid to cover ratio was 4.7, while in 2021 alone we are looking at an average of 7.5.

Why do we think that is? For me there are three main reasons. We have huge excess liquidity in the system, close to €4.5tr excess cash in the system. We have also had, with the Pepp programme from the ECB, a new maturity bucket that it is focusing on, so they are also buying the bill segment. And year-end balance sheet constraints are playing an important role here and in the search for collateral.

The segment is an old segment. We have been active for 10 years, we have added a new line, the interest is very strong and it cannot be ignored by an issuer.

GlobalCapital: **Dietmar, on the one hand, you are hearing the issuers talk a lot about their issuance and the options that they have and the oversubscriptions.**

On the other hand, there is an increase in the fiscal measures to fight the pandemic. How do you think of this in terms of the refinancing risk? Do you view it positively?

Hornung, Moody's: Most supranationals have reacted to Covid in some form, either by increasing their lending or by repurposing their lending towards pandemic-related lending. We are seeing some who have large unused capital available and who are able to quickly scale up their lending. A few others received additional capital from their shareholders.

Dietmar Hornung, *Moody's Investors Service*

In terms of what they are doing, some have been preoccupied with pandemic response while others have been able to move to long-term resilience plans including climate action, such as the EBRD.

Overall, the importance of the sector has increased, as have issuance volumes. In terms of liquidity and funding particularly with the European supranationals, we don't see an adverse credit impact. We have a quite constructive view. It's a resilient asset class, and the market-implied ratings that Moody's calculates also speak to the resilience of the sector.

In a way, the pandemic has helped to transform the SSA sector. But in terms of our assessment of credit profiles and the liquidity situation, there is no real adverse effect.

GlobalCapital: Tom, it's a constant complaint that you hear from banks about primary dealerships being expensive. Have you noticed any change to the amount or style of DCM coverage you are getting?

Meuwissen, NWB Bank: No, not really. I can understand the attitude towards the primary dealerships, but for us, our annual funding need is normally between €12bn and €14bn, and we are probably a bit overbanked when it comes to that anyway. So, it's difficult to keep all of your coverage banks happy, especially in the current system; everyone is aiming for the fee-paying deals and those are the public deals.

In the arbitrage deals, you could argue that sometimes there is more risk for the banks than in the public deals. That always makes it a bit difficult in your attitude towards your banks. That is because normally banks see arbitrage deals as a step-up to a benchmark deal, and sometimes they give in — in the swap or whatever. But you don't know whether they give in, or how much they give in. When you do a lot of arbitrage deals with a bank, you think they are happy; on the other hand and at the same time they think they must be entitled to a benchmark as they have done so many arbitrage deals.

So, it's a bit of a grey area. In an ideal world all deals would be fee paying, then it would be quite simple and everyone might be happier with the deals they were doing. When you don't have that many benchmarks and you are overbanked anyway, how do you keep the crowd happy? That's definitely a difficult thing. I would argue for a change in the fee-paying system, but that's been talked about for some time already. I don't see it happening.

Ruhl, European Commission: To answer the question of whether a primary dealership is expensive or not, you have to look at the whole package of obligations and incentives each issuer is putting in its primary dealer system. We had the challenge or the opportunity to build something from scratch earlier in 2021 and we saw the issues that Tom mentioned in the current market practice. Some elements are non-transparent, and you are not able to assess what the real spending of the banks is.

We went for more transparency and decided that all syndicated deals should be fee-paying deals. In return, we reduced the fee table. This gives transparency to the market, to the primary dealers and to us and so far, it has worked well. We started with 39 institutions and we now have 42 members. We receive strong coverage from them, the auctions receive strong support. This concept has been working well for half a year now and we believe it will continue to work well.

Weiss, ESM: I can only add that we are working currently with 37 banks. It's quite a dynamic thing that we have noticed. For us the relationship is a very valuable one and it is very important; we benefit from the banks in that we get best practice advice and it helps us with our execution, so we value the advice, and we accept paying a specific fee.

Looking at 2021, we have seen more requests from different institutions to join our group compared with previous years. It shows how attractive the SSA market is that the focus of some institutions is returning to this space.

Seifert, LBBW: I would be outnumbered if I were to make a case for higher fees. And it is not the issuers' problem if there is overcapacity in the market. That is what we can see happening, leading to situations where banks compete very hard to get a share.

What I would highlight is that SSA issuers rely heavily on good quality execution. Making sure that your dealer banks are on their toes is key. Doing deals that are not immediately paying back can be a way of demonstrating such commitment.

As investment banks, there is a bundle of products and services that need to be delivered, and you have to look at the bottom line and decide for yourself if it is paying off or not. We all have to make sure that the cost structure is adjusted to where we can make a difference. Just being an additional number on some list of primary dealers, without a dedicated value proposition, is hard to remunerate at the moment.

Meuwissen, NWB Bank: You can hardly call it transparent. It is not very transparent. We even offer to pay fees on arbitrage deals and the banks don't want that, since they view it as a step-up to the benchmark. It's a bit strange.

GlobalCapital: Mathieu, Patrick talked about the bundle of services that banks provide. How important is this to you, and how would you characterise secondary market liquidity over the

course of the year? Also, what can issuers and investment banks do to help that?

Buehler, UBS: It's almost a bifurcation of the market, depending on which side you are trying to engage. In SSA in particular, I have not seen any reduction in liquidity, rather the opposite — it's no problem to get very competitive bids from numerous dealers.

However, a lot of investors are looking for the collateral. Even when we see really good bids on bonds we are holding, we are reluctant to sell due to the lack of opportunity to deploy the cash afterwards. In addition, the lower yields and the tighter spreads haven't been very conducive to secondary market liquidity.

What can issuers and investment banks do to improve that? It's not a secret, coming with new issuance across the curve, and commitment to build curves. Building a diverse investor base also helps secondary market liquidity.

GlobalCapital: What can you do as issuers to help secondary liquidity?

Weiss, ESM: The secondary market starts with the primary market and the allocation, and if we have an influence there that's where we as issuers can make a difference. We are less frequent than we have been in previous years, but the frequency and the permanent activity of an issuer is playing an important role. The way that we look at it, being less active in the gigantic benchmark sizes allows us to look at opportunities to tap and therefore increase the liquidity by increasing the outstanding size. This is not always possible, and some investors reflect negatively on having to take down increases of outstanding lines. They prefer new lines, and they like the new issue premium.

We have the 37 banks in our market group, there is no market making requirement that we have as a rule, but any bank that you ask is happy to quote an investor a bid/ask price. As far as I understand, they are also quite tight. We do monitor our secondary market turnover. We have a harmonised reporting format, and we analyse it retroactively.

GlobalCapital: Do you think that many traders are working from home, and has that changed secondary liquidity? Or, for that matter, has working from home changed deal execution or advice even?

Weiss, ESM: The past 18 months have not been easy, and we have seen certain things evolve. On the first trade we had to do, we didn't pick the easiest of choices — we went for an intraday trade and a dual-tranche and we had heavily subscribed order books. We didn't make it easy for ourselves. We have to know how to use certain tools — everything is a little bit more familiar.

When it comes to secondary market trading, obviously they have to comply with rules. Our audit and our risk department make sure that they are not trading on their mobile, and that it is somehow recorded or done electronically. In that sense, trading electronically got a boost, and for an issuer that is easier to analyse instead of voice transactions. So, in that sense, we are in a transformation — it will be exciting to see how it evolves.

Ruhl, European Commission: Working remotely went surprisingly well. To build the NGEU funding machine, we had to create a new team, to on-board a number of new staff members and seconded national experts from national DMOs. All of this was done remotely. We worked in a teleworking mode while getting everything ready to be able to start issuing in June and we succeeded. Eventually, some of the colleagues only met physically after the summer break.

The challenge for the future will be combining physical return to the office and the flexibility of working remotely.

Meuwissen, NWB Bank: I'm amazed how limited the impact has been, particularly on the execution of deals. You don't even know if a person is in the office or at home; the same goes for investors.

In the Covid period, I have had more investor meetings all over the world than ever before. Of course, sometimes it's less impactful, but it's definitely do-able. In the future, it will be more like a hybrid. I expect conferences to return physically, while more one-on-one investor meetings may remain online.

GlobalCapital: With the large increase in green issuance we are seeing, are we going to see oversupply in the sector? Importantly, are we going to see a decline in the greenium?

Jörg Graupner, *KfW*

Graupner, KfW: Depending on the maturity, we will see more or less greenium. The shorter end is less supported by special green investors, which is what we see from our order books. At the longer end, the greenium will stay longer.

Buehler, UBS: It has been a big focus for us in 2021 already and, it will continue to be a big topic. We are actively trying to grow in that market. There is clearly a bigger and increasing allocation to issuers who have a credible ESG framework and issuance programme. It's a huge opportunity for the SSA sector in general. A lot of issuers since inception have set out with a purpose that is aligned to ESG policies, so they can credibly issue those kind of bonds. It's a good opportunity to grow the investor base outside the traditional SSA investors.

Meuwissen, NWB Bank: On the premium side, we can see that when you do a three year dollar deal there is less greenium then when you do a 25 year euro. More broadly, and in time, I think the issuers' whole operation will need to be ESG-aligned. You will, for instance, get an ESG rating on the whole organisation, which could act as an incentive to improve your ESG efforts.

GlobalCapital: Siegfried, you are very specific with your 30%. Is that influenced at all by the greenium?

Ruhl, European Commission: The greenium is not the reason we will be issuing green bonds; of course it is welcomed, but it is not the primary objective. The main reasons are the political objective to support the green transition and the willingness to demonstrate the Commission's commitment to sustainability on the funding side, thus further developing the European market for ESG investments.

Maybe Patrick, as a banker, will say "supply creates demand". The NGEU issuances gave a great push to the European capital market. I expect them to have the same effect on the green and more generally on the ESG part of this market. We already saw it with the nearly €90bn of SURE [Support to mitigate Unemployment Risks in an Emergency] issuances in the second half of 2020 and at the beginning of 2021, when the social bond market got a strong push. We would want to give a similar push to the green bond market.

So, 30% of our bonds will be issued as NGEU green bonds. It's an overall amount, not 30% every year. It depends on the eligible expenditures. Looking at it, 30% of around €800bn means that up to €240bn-€250bn will be issued as green bonds. This will support this market. This will attract investors and the demand side will grow at least at the same pace.

Seifert, LBBW: I think we are witnessing a firm commitment on the part of Europe, demonstrated by the green deal and a lot of other policy initiatives, including the post-pandemic fiscal measures. This stands out in a global context and will create opportunities in terms of ESG transformation.

By issuing in a sustainable format, you get access to the largest possible investor base. There is little doubt that this will get you a better outcome across your entire funding exercise.

I think the discussion around the greenium is more a thing of the past. I attribute that to the early days of discovery. Now that the major milestones have been achieved lately, I don't think this will be a specific part of the success of an individual transaction.

GlobalCapital**: Dietmar, what are the upsides — and, importantly — the downsides, of the SSA market in terms of risk?**

Hornung, Moody's: Our expectation is that we see a continuation of some of the key 2021 trends: SSA market resilience to increased issuance; and a further gaining in importance of ESG as a focus. Moody's is looking very specifically into that. We have published a framework to derive credit impact scores and issuer profile scores with respect to ESG considerations. We aim at publishing the respective scores for supranationals in early December.

GlobalCapital**: Siegfried, you mentioned already the balance between syndication and auctions. In 2021 you very neatly issued a big bond on each point of the yield curve except the three year part. What can you share with us about your funding plans for 2022?**

Ruhl, European Commission: We have established a sequence of six-month funding plans, and we will announce our plans for 2022 in December. Strategically, we will continue what we started in 2021. This means we will regularly issue new bonds, increase the volume of our outstanding bonds, and we plan to be regularly present in all parts of the curve, with one syndication and one EU bond auction per month, subject to market conditions and our funding needs.

Graupner, KfW: We will publish our funding needs for 2022 after the board of directors meeting, which takes place on December 16. I do not expect large changes in our funding mix in 2022 compared with previous years.

Weiss, ESM: Our funding needs compared with 2021 will be slightly higher but not massively. We are looking at a combined target of €26bn, around €18bn for the EFSF and €8bn for the ESM. We will continue to be active in all parts of our curve through taps or new lines and we will communicate if there are any changes in the funding amounts or funding strategy through our newsletter in December.

Meuwissen, NWB Bank: It will be a bit more than in 2021 — €12bn-€14bn. We have in the past committed to have at least a quarter of our funding in ESG, but this increases to more than 40% of our funding in 2022. We have issued more than €20bn of ESG bonds already, so there is a strong focus there.

GlobalCapital**: In one sentence or less, what is going to be the dominant theme of the SSA market in 2022?**

Meuwissen, NWB Bank: ECB policy.

Buehler, UBS: Two major things: inflation and how transitory this will be; and ESG — it will be even bigger than in 2021.

Hornung, Moody's: Two topics: first, an increased ESG focus with sustainability and social bonds; second, an increased interest in the issuance of hybrid securities as well as balance sheet optimisations.

Graupner, KfW: The same answer as Tom. But more broadly than the ECB — the Bank of England and the Federal Reserve will also be in focus in 2022.

Weiss, ESM: Central bank policy will be a dominant theme, but I also think that the reshaping of fiscal rules in Europe will be on the agenda of policymakers.

Seifert, LBBW: We will keep a close eye on what is happening in France, the EU council presidency, and the French election. With all of the positive developments we have spoken about, I think there is a real chance that we will move a step further in terms of European integration, and that will be a key theme throughout the year.

Ruhl, European Commission: I hate to disappoint you, but I can't add anything to what has already been said. Central bank policy and the ESG market will play a dominant rule. We will not disappoint the market, we will offer attractive opportunities for investors and, when it comes to the ESG market, we will support the European market with NGEU green bonds. GC