GREEN BOND ISSUES ON THE INCREASE - WHITE & CASE

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The sustainable bond market is expanding rapidly. According to the Climate Bonds Initiative, green bond issues in 2016 exceeded $80 billion, a 90 per cent increase on the total for 2015. Europe remains the second-largest region after Asia in terms of green bond issuance volume.

Green bonds rose to prominence in 2014 when a group of 14 banks launched a first proposal for the principles – the Green Bond Principles (GBP) – that should govern their issuance within the framework of the International Capital Market Association (ICMA).

The green bond market is growing both in liquidity and depth. Last July, SNCF Réseau's €750 million issue with a 2.25 per cent coupon maturing in 2047 represented a milestone in the European green bond market.

ICMA has recently extended the application of the GBP to the new concept of sustainability financing, which exceeds the scope of green bonds to encompass matters such as the eradication of hunger, access to social housing, SMEs and self-employed workers' funding, among others.

In Spain, sustainability financing has been carried out mainly through debt issuances and bank loans. In other markets, there have also been examples of asset-backed securitisation, project and high-yield bonds, as well as direct investment in equity by funds.

Sustainability bond issuers benefit from access to a new category of investors who are specialised in Environmental, Social and Governance (ESG) and in specific geographies (that is, Scandinavia, the US or France).

Notwithstanding the fact that many investors might simply be looking for an attractive yield based on the creditworthiness of the issuer, there are more and more ESG specialised investors that value an information reporting standard that is in line with best international practices.

Certain markets have specific indexes where these financial instruments are traded separately, entailing a specific methodology for analysis and investment recommendations to ensure that a bond complies with the GBP. Issuers need to be precise in describing the use of the proceeds and the nature of the projects in which such proceeds are to be invested in. Likewise, issuers shall obtain a report from an independent expert that certifies the projects as sustainable.

Additionally, issuers must commit themselves to report at least once a year on the environmental impact of the financed projects, both from a quantitative and qualitative perspective. This ex ante and ex post reporting standard will enable investors to determine the sustainability of a specific green bond issue. On top of that, the market is increasingly demanding that the non-financial and diversity information is provided regardless of the issuer´s plan to issue a sustainable bond.

In this regard, the proposed Spanish law on non-financial and diversity information, which will transpose Directive 2014/95/EU, will require that large corporations describe their policies and results in environmental and social matters, irrespective of any specific sustainable bond issue. The European Commission, in the documentation related to its guidelines on non-financial information disclosure, acknowledges that this ex ante transparency exercise can help issuers reduce their cost of financing and improve relations with their stakeholders.

The sustainability finance market is moving towards a model in which investment decisions will increasingly be focused on the issuer's sustainability track record.

José Blanco Aróstegui is a partner at White & Case. He can be contacted at jblanco@whitecase.com