

# SUSTAINABLE FINANCE UPDATE

## ESG Debt Markets – an Australasian perspective

This document was prepared by National Australia Bank's Corporate Finance personnel and is not research.

### MARKET OVERVIEW

#### ICMA releases Sustainability-Linked Bond Principles

- The International Capital Markets Association (ICMA) Green and Social Bond Principles released several guidance documents at the 6<sup>th</sup> AGM including [voluntary guidelines](#) for sustainability-linked bonds (SLBs) defined as forward-looking performance-based bond instruments where the issuer is committing to future improvements in sustainability outcomes within a predefined timeline.
- Italian utility company Enel sold the first SLBs in US\$ and EUR in 2019. In USPPs, [Sydney Airport sold](#) a 20-year A\$100m sustainability-linked bond in February (NAB joint lead), which was followed by Iceland's [Landsvirkjun's US\\$80m](#) USPP deal in March.
- They also released updated [Social Bond Principles \(SBP\)](#) providing expanded social project categories, additional target populations and incorporating recent guidance for Covid-19 social bonds, a collection of [Social and Sustainability Bond Case Studies](#), updates of [Harmonized Framework for Impact Reporting For Green Bonds](#), [Harmonized Framework for Impact Reporting for Social Bonds](#), [High Level Mapping to the SDGs](#), [Guidance Handbook](#) and [External Review Guidelines](#).

#### ICMA/LMA Guidance Timeline

Product Guidance	Launched	Updated
Sustainability Linked Bond Principles	June 2020	-
Sustainability Linked Loan Principles	March 2019	May 2020
Green Loan Principles	2018	May 2020
Sustainability Bond Guidelines	June 2017	2018
Social Bond Principles	2016	2018 and 2020
Green Bond Principles	2014	2016, 2017 and 2018

#### Impact investments triple over two years, RIAA finds

- The market for impact investing has more than tripled over the past two years from A\$5.7bn to A\$19.9bn as responsible investment has gained mainstream traction, a [new report](#) by the Responsible Investment Association Australasia finds.
- The report covering 125 investors including super funds and family offices found they plan to increase their allocation to impact investments to A\$100bn over the next five years.

#### Social bond issuance surges in 2020

- Issuance of social bonds surged to US\$31.6bn in the first five months of 2020, nearly double the issuance in the whole of 2019, according to [data from BNEF](#).
- Over US\$163bn of Covid-related bonds with a proliferation of new labels have come to market, raising 'social-washing' concerns as not all the pandemic bonds issued are sustainable debt instruments.

### SELECTED RECENT DEALS

#### IFC increases Kangaroo Social Bond to A\$405m

- International Finance Corporation (IFC) has tapped their 15-year social bond for the 4<sup>th</sup> time, raising another A\$30m and taking the outstanding line to A\$405m. The 2035 maturity bond was first issued in April 2020.

#### NHFIC issues third \$A Social Bond

- National Housing Finance and Investment Corporation (NHFIC) priced their 3<sup>rd</sup> social bond, a 12 year, A\$562m transaction, attracting an orderbook of almost A\$1.5bn
- NHFIC is a Commonwealth government guaranteed entity providing finance to increase the supply of social and affordable housing in Australia.

#### NZGIF announces first financing

- New Zealand Green Investment Finance (NZGIF) has [announced](#) its first financing in 2020, an NZ\$15m green credit facility provided to CentrePort to fund low carbon projects at the Wellington port including electric vehicles, on site renewable energy and energy efficiency.
- NZGIF's mandate is to catalyse the development of the low emissions investment market in NZ.

#### First State's Coriance refinances with ESG-linked facility

- French district heating company Coriance has raised €150m of debt linked to 3 ESG KPI's including CO<sub>2</sub> emissions per unit sold, accident frequency and share of renewable energy in production mix.
- NAB acted as Joint Lead Sustainability Arranger.

#### AIIB issues first Sustainable Development Dim Sum Bond

- Asia Infrastructure Investment Bank (AIIB) priced the inaugural offshore RMB-denominated Sustainable Development Bond in the China Interbank Bond Market.
- The 3bn yuan 3-year bond, with a coupon of 2.4%, follows the bank's debut Panda bond last week, which carried the Combating COVID-19 label.

### Republic of Indonesia brings back Green Sukuk

- Indonesia sold a five-year US\$750m green bond as part of its US\$2.5bn triple tranche Islamic finance transaction, off the back of almost US\$17bn of bids across the deal.
- This follows the sovereign's US\$4.3bn triple-tranche in April whose proceeds were assigned to help fund COVID-19 pandemic relief.

### IBK returns with COVID-19-linked bond

- Industrial Bank of Korea raised \$500m from a five-year social bond, with proceeds earmarked to help SMEs, job creating companies and start-up companies affected by the COVID-19 pandemic.

### MUFG issues in Euro for COVID-19 response

- MUFG offered 4-year €500m sustainability bond earlier this month to raise funds partly for loans to small- and mid-sized companies that have suffered during the coronavirus pandemic, as well as for green projects.

### Transition bonds return

- Two issuers returned to market with transition bonds this month: Castle Peak Power issued their second Energy Transition Bond, a US\$350m 10-year bond that attracted an order book of US\$1.7bn, while Italian energy company SNAM [issued a 10-year €500m Transition Bond](#) following their Climate Action Bond issued in February 2019.

### KKR fund completes first US borrower ESG Funds Financing

- KKR's Global Impact Fund completed the first sustainable [use of proceeds fund financing loan](#) for a US borrower.
- The proceeds from the credit revolving facility for KKR's US\$1.3bn Global Impact Fund are intended to be invested in lower mid-market companies contributing to meeting the UN's SDGs.

### EQT signs largest ever ESG-linked SCF

- Private equity firm EQT has [entered into](#) an ESG-linked, fund-level bridge facility of up to €5bn with a syndicate of more than 15 lenders.

## INVESTOR & MARKET NEWS

### New Zealand reforms ETS through Climate Change Response Amendment Act

- The Climate Change Response (Emissions Trading Reform) Amendment Act in New Zealand [has now been passed](#) into law, designed to support emissions reduction targets, emissions budgets and set an ETS cap.

### NZ's ACC aims to halve carbon intensity

- The NZ Accident Compensation Corporation (ACC) has [announced a target](#) to halve the carbon intensity of its NZ\$46bn investment portfolio by 2030.

### Minerals Council outlines climate strategy

- The Minerals Council of Australia says it has endorsed the Paris Agreement and released a [climate action plan](#) to reduce carbon emissions in the resources sector.

### EC proposes RWA discount for Green Loans

- The European Parliament is discussing moves to stimulate green lending by increasing the proposed risk weighted asset (RWA) discount for green loans [from 25% to 40%](#)
- The proposal will free up capital from existing and new loans, allowing European banks to provide more green loans inside the EU and globally, the Refinitiv report says.

### NGFS guidance on climate and environmental risks

- The Network for Greening the Financial System (NGFS) has released two new reports;
  - i. A [Guide for Supervisors](#) gathering leading practices of the supervisory community with 5 recommendations; and
  - ii. A [Status Report](#) on financial institutions' experiences of working with green, non-green and brown financial assets and a potential risk differential.

### Euronext launches suite of ESG products and services

- These include the [Euronext Eurozone ESG Large 80 Index](#) and the [ESG 80 Index Futures](#), aligning the [Low Carbon 100 Index](#) to the Paris Agreement and expanding the Euronext Green Bond offering to other [ESG Bonds](#).
- These all aim to [accelerate the transition](#) towards new investment standards and empower European buyers to support sustainable initiatives.

### IHS Markit launches first ESG CDS index

- A [new CDS index](#) providing exposure to ESG screened European Corporate credit risk based on MSCI ESG research began trading on 22 June.

### Sustainalytics Transition Bond Second Party Opinions

- Sustainalytics has launched a [Transition Bond Second Party Opinion service](#) to help companies in hard-to-abate sectors finance business activities along a transition pathway compatible with long-term climate goals.

### EU launches Sustainable Finance Platform

- The European Commission [launched the Platform on Sustainable Finance \(PSF\)](#) after the EU Taxonomy was approved. The PSF will advise on the final EU taxonomy criteria for 'green' activities and potential expansion for 'social objectives and brown activities'.

### Carney speaks on climate disclosures

- The McGuinness Institute, Simpson Grierson, and the Climate Disclosure Standards Board hosted a virtual roundtable with Mark Carney, UN Special Envoy for Climate Action, and Adrian Orr, RBNZ Governor to discuss climate-related financial disclosures. The recording is available at: <https://www.mcquinnessinstitute.org/upcoming-events/>

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