



the EU Taxonomy and Green Bonds

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Significant change in investor sentiment

**INDUSTRY-LED, U.N.-CONVENED
NET-ZERO BANKING ALLIANCE**

43 Founding banks **28.5** US\$ trillion in assets **23** Countries

MARK CARNEY'S PRIVATE FINANCE HUB UN CLIMATE CHANGE HIGH LEVEL PANEL OF EXPERTS RACE TO ZERO UN Environment Programme Finance Initiative

USD 28.5 trillion AUM committing to aligning their lending and investment portfolios with net-zero emissions by 2050

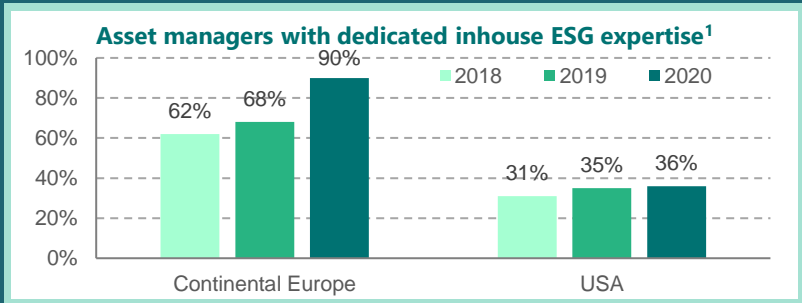
NET ZERO ASSET MANAGERS INITIATIVE

USD 37 trillion AUM committed to investing aligned with net zero emissions by 2050 or sooner.

Climate Action 100+
Global Investors Driving Business Transition

USD 52 trillion AUM targeting the highest emitting companies globally demanding:

1. Take action to **reduce GHG emissions in line with Paris Agreement**
2. Implement a strong governance framework which clearly articulates **the board's accountability**
3. Provide enhanced corporate disclosure in line with **TCFD recommendations**



The Global Risks Report 2021
16th Edition
INSIGHT REPORT

Top Risks by likelihood

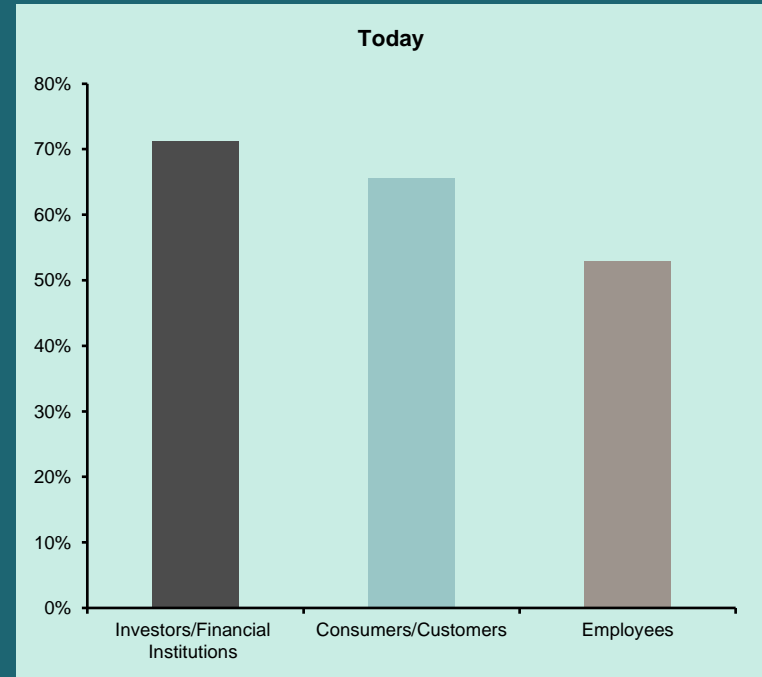
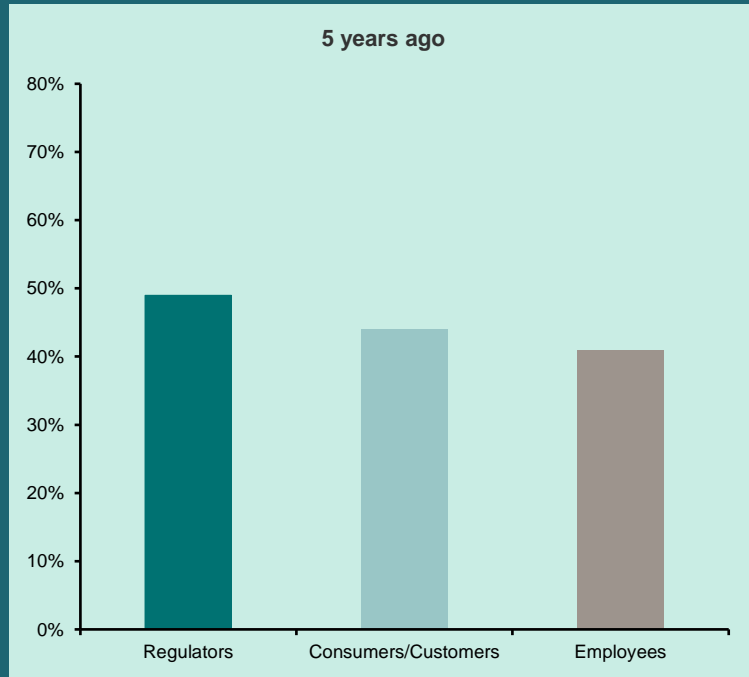
- 1 Extreme weather
- 2 Climate action failure
- 3 Human environmental damage
- 4 Infectious diseases
- 5 Biodiversity loss

Top Risks by impact

- 1 Infectious diseases
- 2 Climate action failure
- 3 Weapons of mass destruction
- 4 Biodiversity loss
- 5 Natural resource crises

1. Source: Russel Investments, "2020 Annual ESG Manager Survey"

Which stakeholders have the largest impact on companies' decision-making on ESG matters?





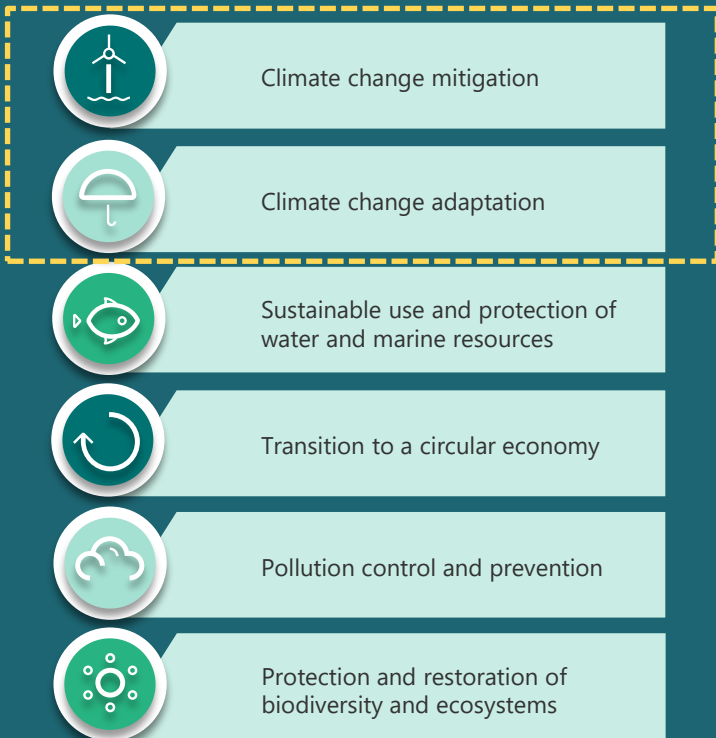
However...
...the regulatory
tsunami from EU is
pushing investors

To reach the **Paris Climate Agreement**, and for the EU to become **carbon neutral** in 2050, we need more capital to be invested in **environmentally sustainable activities**

But what is an environmentally sustainable activity?



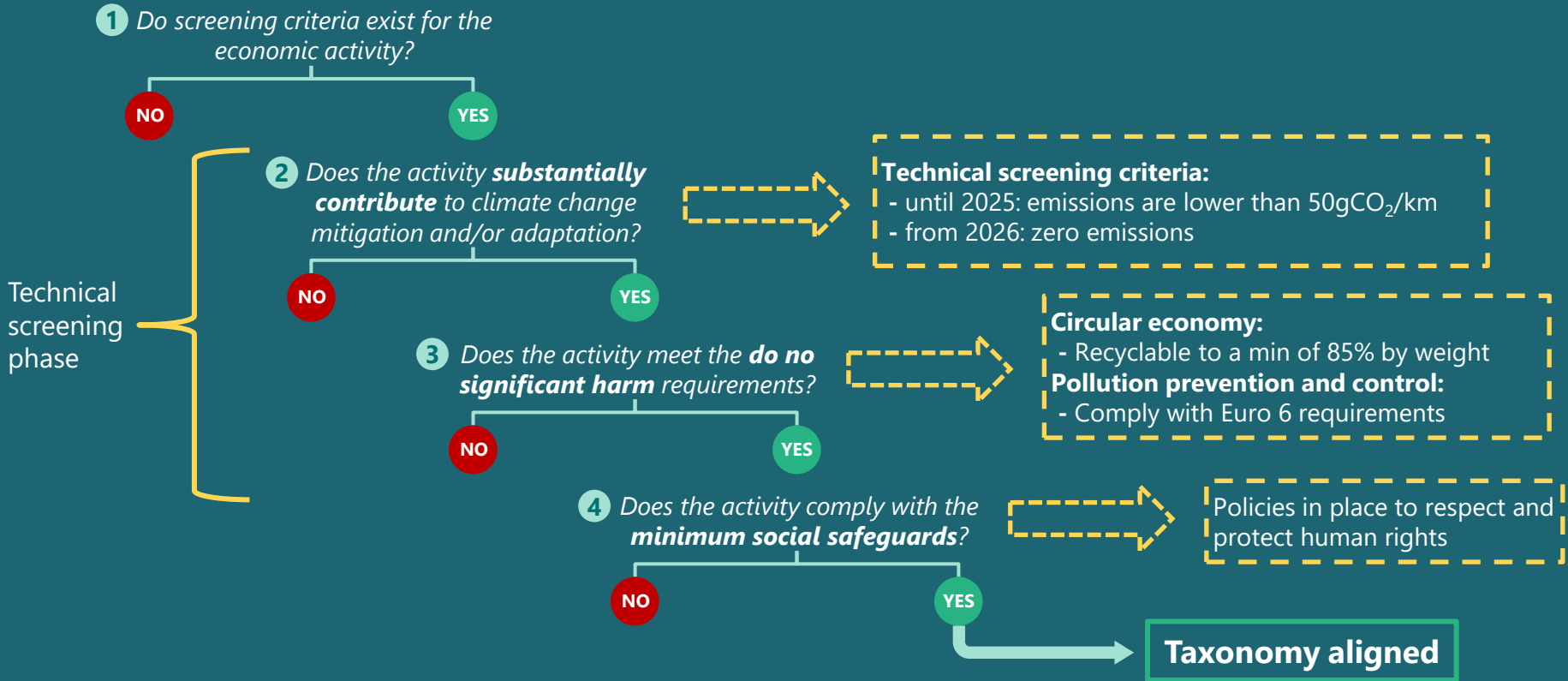
The EU Taxonomy – reaching EU's environmental objectives



Most relevant sectors from a climate change mitigation perspective (>80% of EU emissions) :



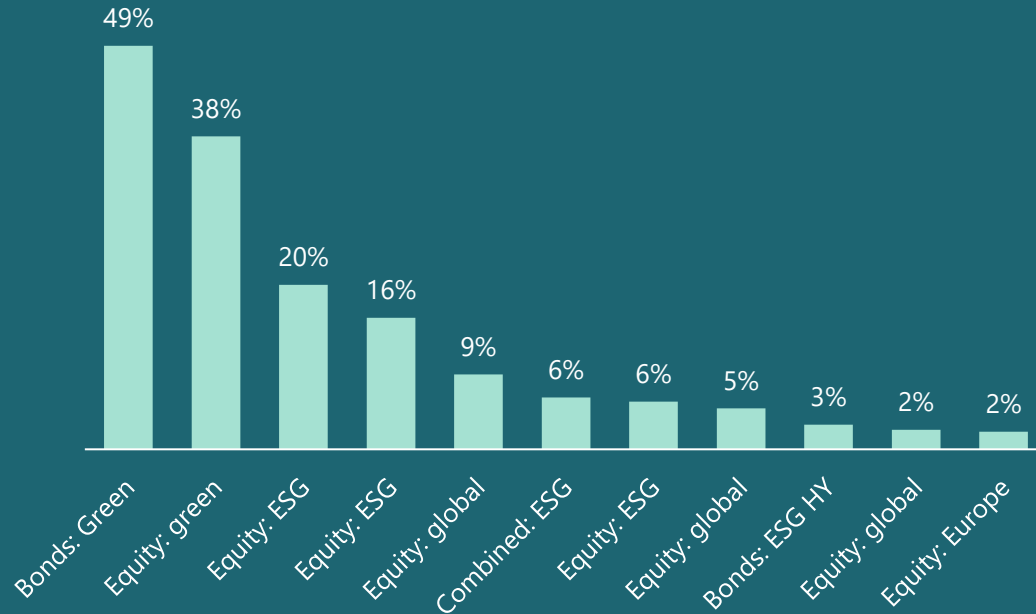
Taxonomy example – Transport by passenger cars



Taxonomy alignment

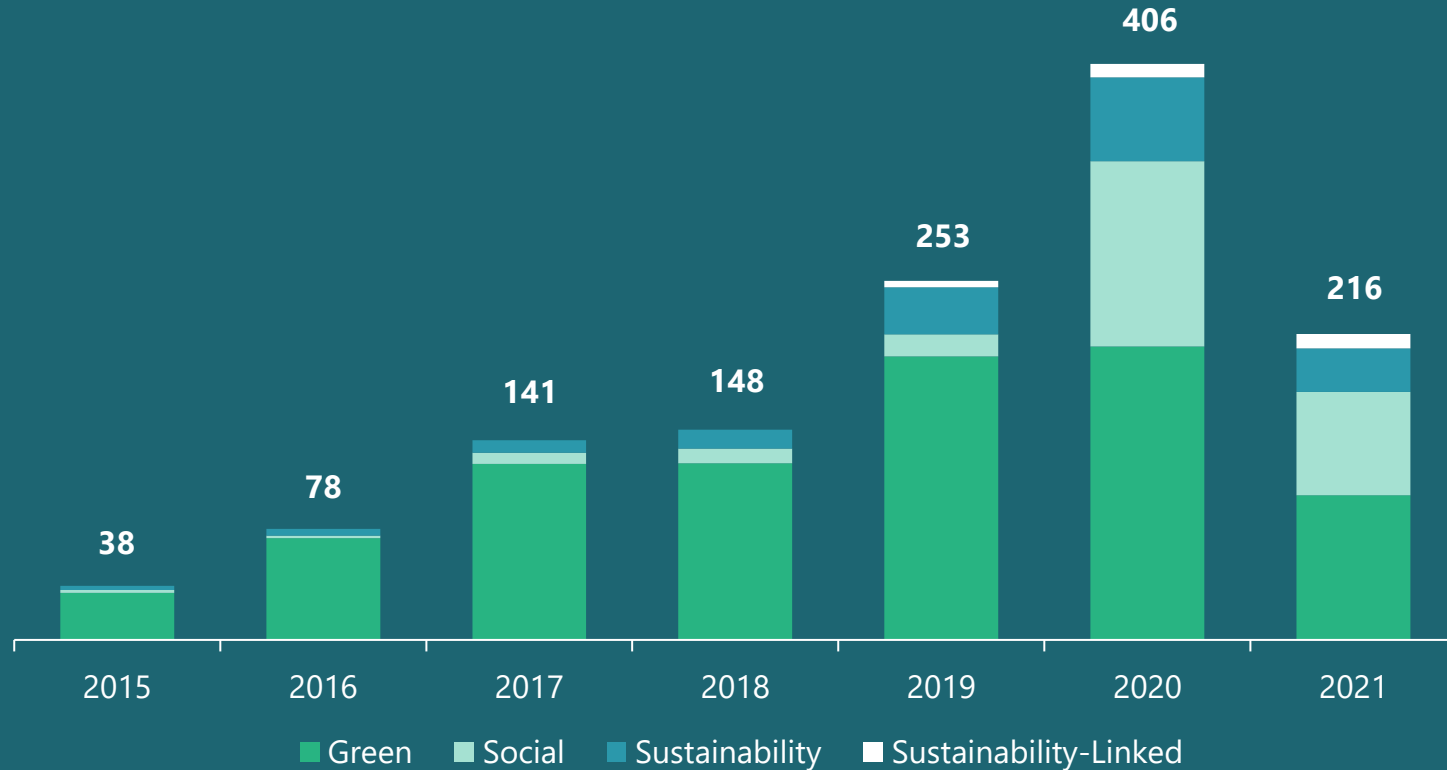
We can most likely expect the Taxonomy-aligned share of the investible universe to be small

UN PRI study with 40 investors testing Taxonomy alignment on fund level



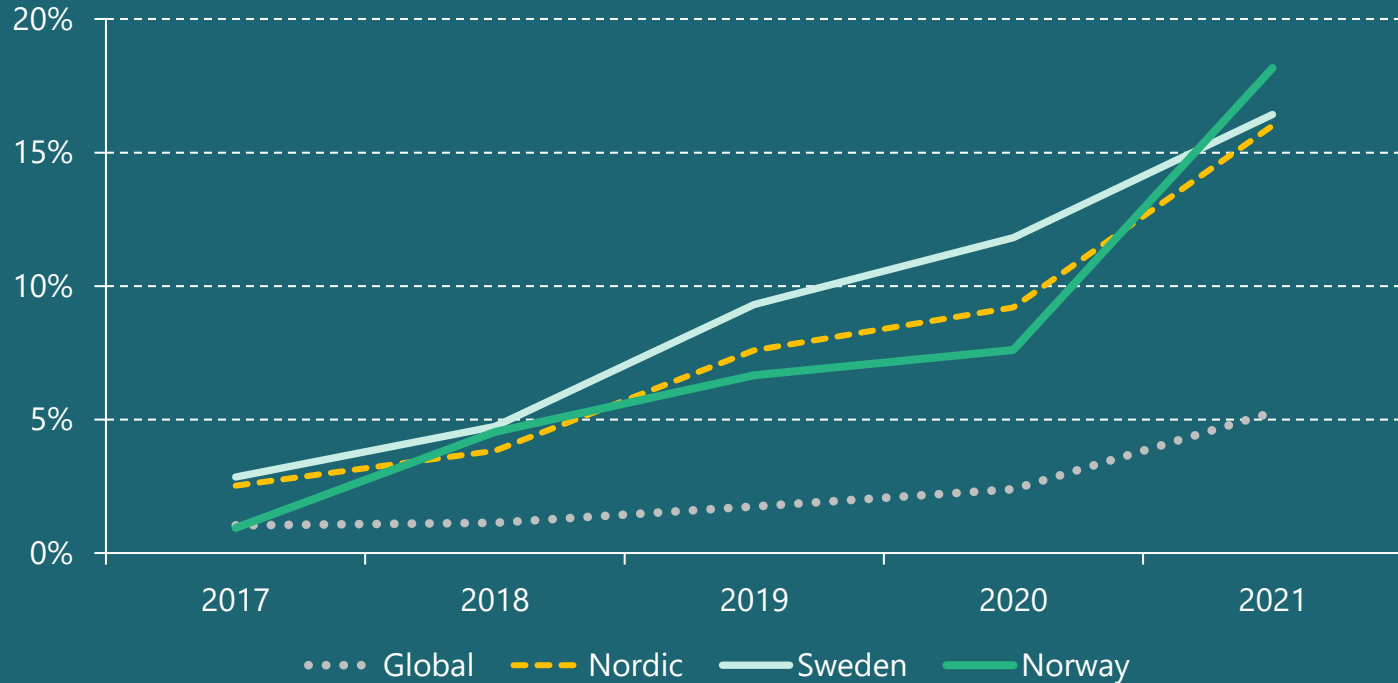
A growing market for sustainable bonds

Global annual issuance (EUR billion)



Market also growing in relative terms

Sustainable bond volume as a share of overall bond market



Current Market Standard for ESG bonds and loans

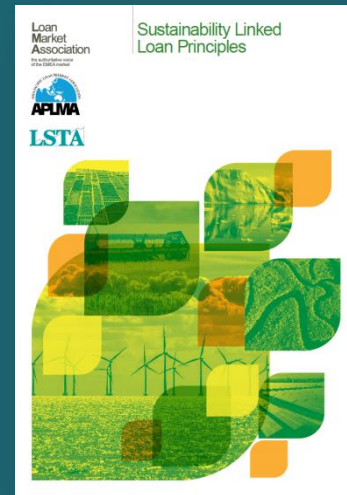
Green, Social and Sustainability Bonds



Green Loans



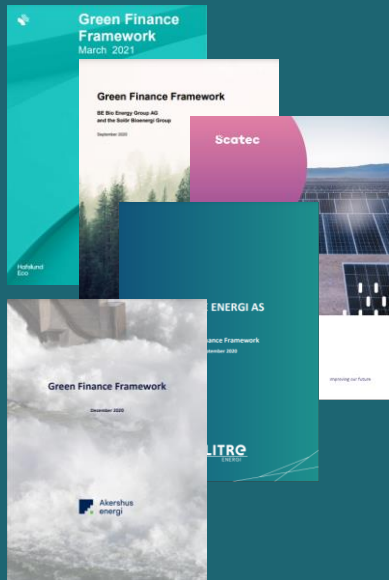
Sustainability Linked Loans



Sustainability Linked Bonds



ICMA Green Bond Principles



1 Use of proceeds

- Renewable energy*
- Energy efficiency*
- Clean transportation*
- Climate change adaptation*
- Waste management*

2 Project selection

- The internal selection process describes how you evaluate and approve Green Projects

3 Mgmt of proceeds

- Describes how you manage the proceeds from Green funds to ensure it is earmarked green projects

4 Reporting

- Allocation of proceeds
- Environmental impact of projects being financed



Second Party Opinion

- ✓ Confirm alignment with ICMA's principles
- ✓ Evaluate the ambition of the project criteria and the governance/policy documents of the issuer

A selection of Second Opinion Providers

What will the EU Taxonomy mean for Green Bonds?



- The TEG has proposed a voluntary **EU Green Bond Standard**
- Builds on existing **best market practice** + Taxonomy
- We expect various **standards to co exist** – the Taxonomy is a regional/EU regulation whereas financial markets are global
- **Reporting** on Taxonomy alignment of all types of green bonds is more relevant going forward – green bonds already offer additional transparency around use of proceeds
- Investors value **ambition level** and **transparency**, irrespective of label

ICMA GBP vs EU GBS



Nature	Voluntary standard	Voluntary standard
Bond types	Use of Proceeds	Use of Proceeds
Applicability	Global	Regional (EU)
Components	<p>Four core components:</p> <ol style="list-style-type: none"> 1. Use of Proceeds 2. Process for Project Evaluation and Selection 3. Management of Proceeds 4. Reporting 	<p>Builds on ICMA GBP's components but adds:</p> <ul style="list-style-type: none"> • Project alignment with EU Taxonomy • Formalised Green Bond Framework • More granular reporting
External review	Recommended	<p>Verification required by a registered external reviewer:</p> <ul style="list-style-type: none"> • <u>Mandatory</u> for the alignment of the Green Bond Framework and Allocation Reporting • <u>Voluntary</u> for Impact Reporting



Final remarks

- EU Taxonomy is a **REPORTING REQUIREMENT** to increase transparency and shift capital towards sustainable investments
 - It is NOT a list of what investors/banks can/can't finance
 - It complements the existing ESG analysis
- Not Taxonomy-aligned does not equal **BROWN**
 - A Taxonomy for harmful ("brown") activities is on the agenda
 - Additional sectors and **environmental objectives** still to be included
- The share of investible universe that is Taxonomy-aligned is **small**
- EU GBS expected to be **voluntary** and **builds on current standard**
 - Avoid greenwashing / **Science based approach**
 - Will attract **significant amount of capital** (EU + private)
 - It is a regional standard and **will co-exist with ICMA**

An aerial photograph of a boat's wake in turquoise water, with white foam from the wake visible. The image is split vertically, with the left side showing the water and the right side being a dark, textured background.

DNB

Thank you