Financement de la transition énergétique :
Rôle des marchés des capitaux

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1818 Society

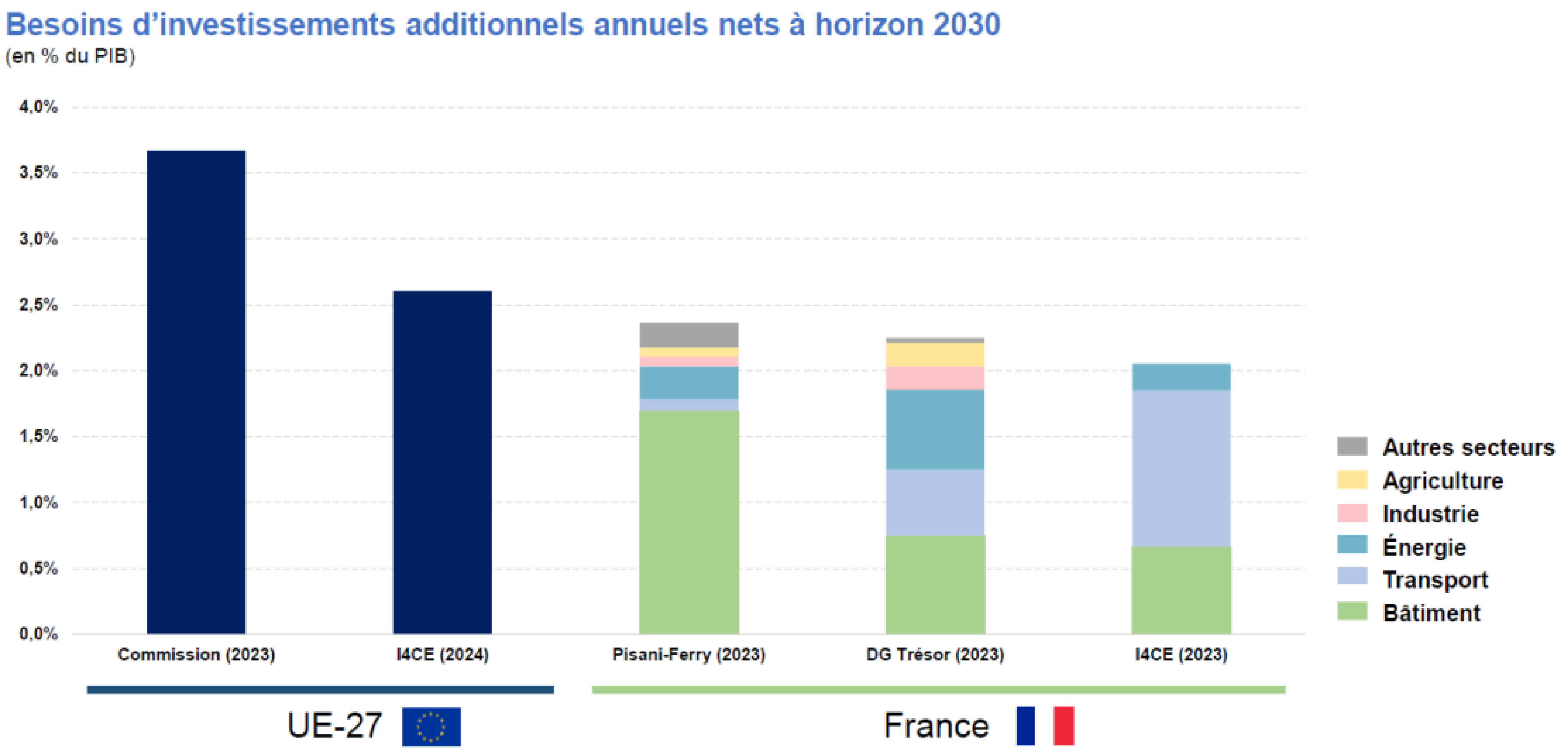
Outline

- The Challenge and required Investments
- Sustainable bonds and ICMA standards
- Greenwashing risks and global regulatory trends
- Transition finance in the sustainable debt capital market

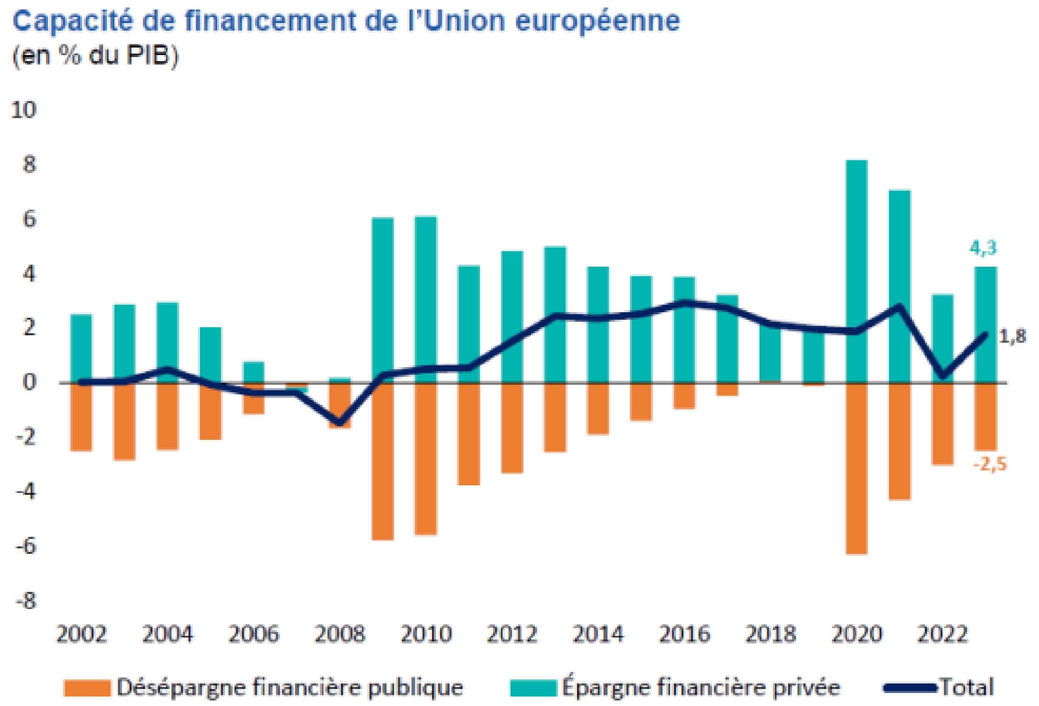
The Challenge and required Investments

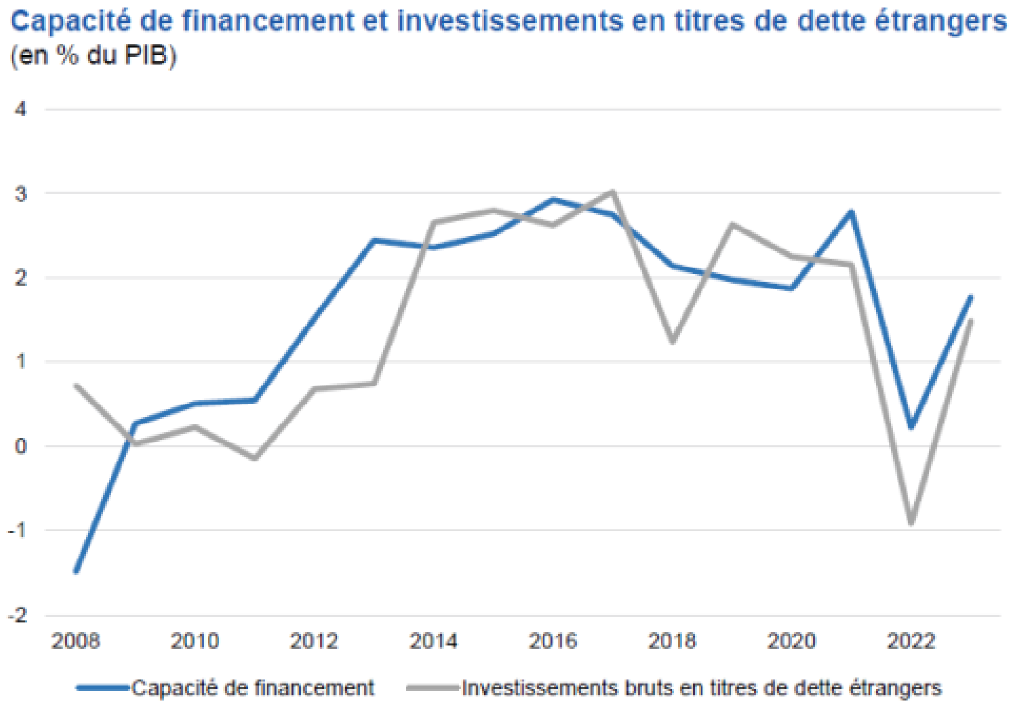
The Challenge

Additional investments required for the transition in Europe

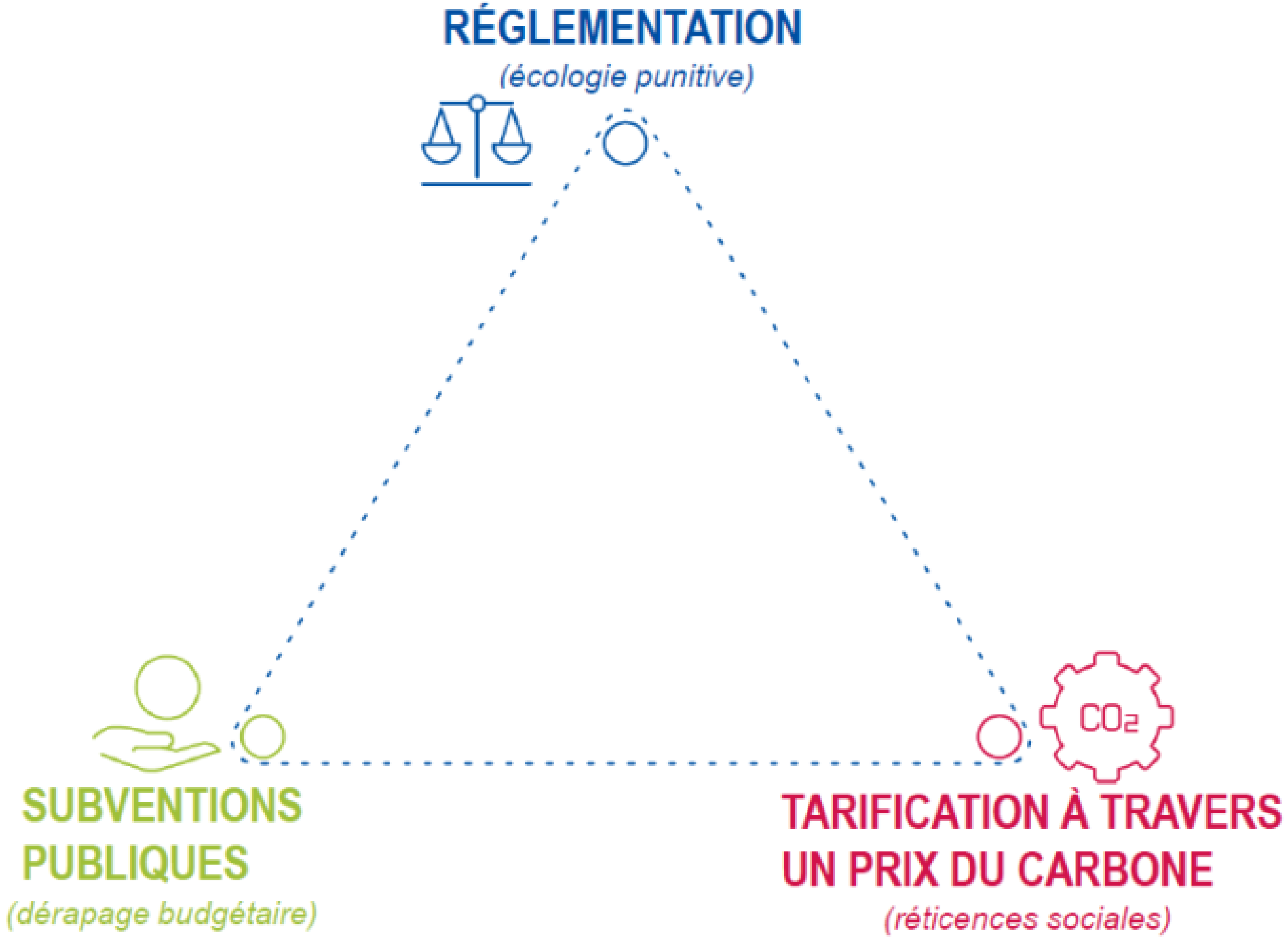


Net Savings Capacity in Europe





The triangle of incentives to distribute the transition effort



Sustainable bonds and ICMA standards

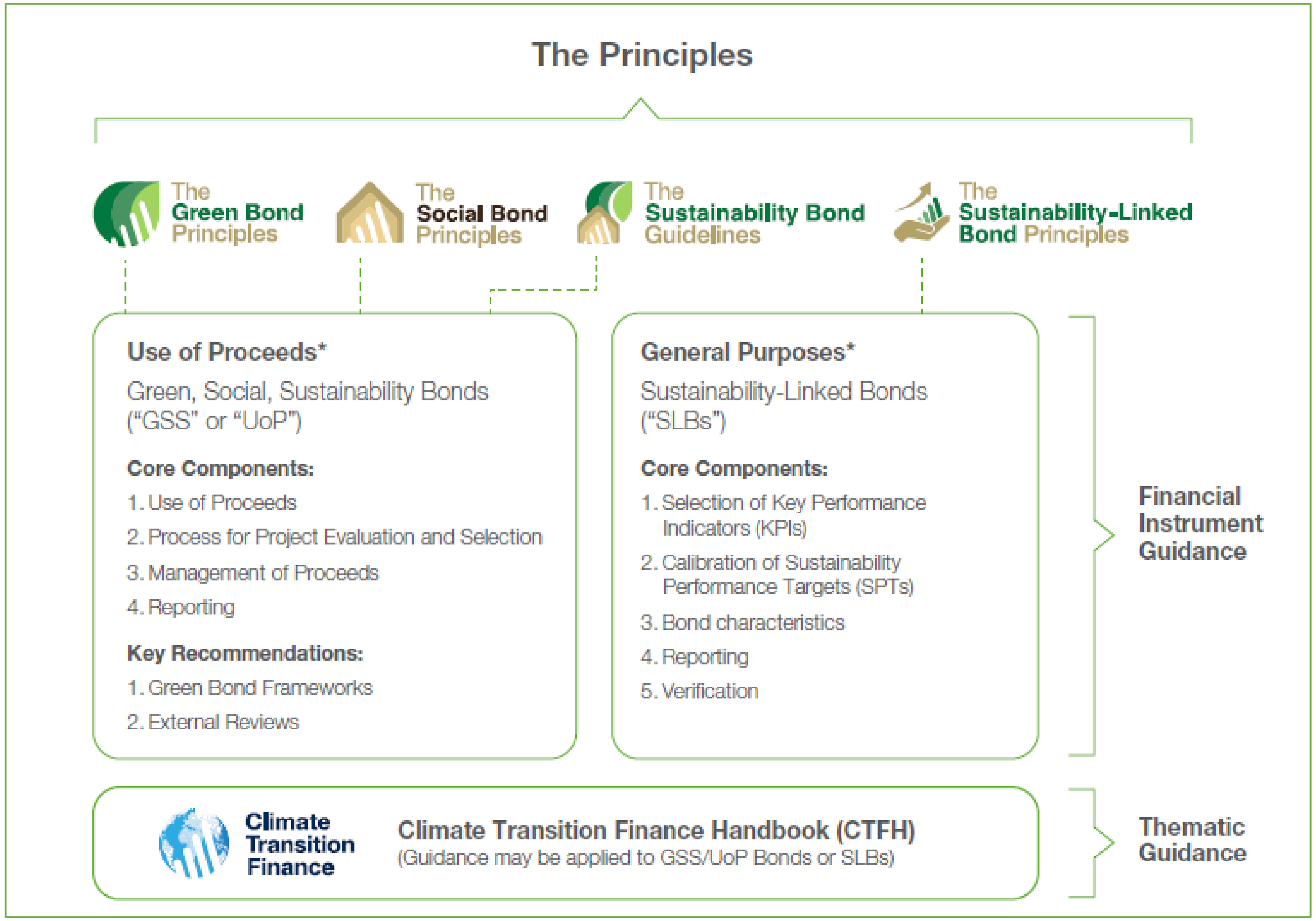
Presenting ICMA and the Principles community

- Non-profit headquartered in Switzerland
- Around 620 members in 66 jurisdictions, including private/public sector issuers, banks, asset managers, insurance companies, law firms, capital market infrastructure providers and central banks.
- ICMA prioritises three core fixed income market areas – primary, secondary, repo and collateral: with two cross-cutting themes of sustainable finance and FinTech and digitalisation.
- Further info: https://www.icmagroup.org/About-ICMA/

- Over 380 Members & Observers
- Current WGs: Impact Reporting WG, SLB WG, Green Enabling Taskforce, SLL Refinancing Instruments Taskforce
- Further info: https://www.icmagroup.org/sustainable-finance/

Overview of sustainable bonds

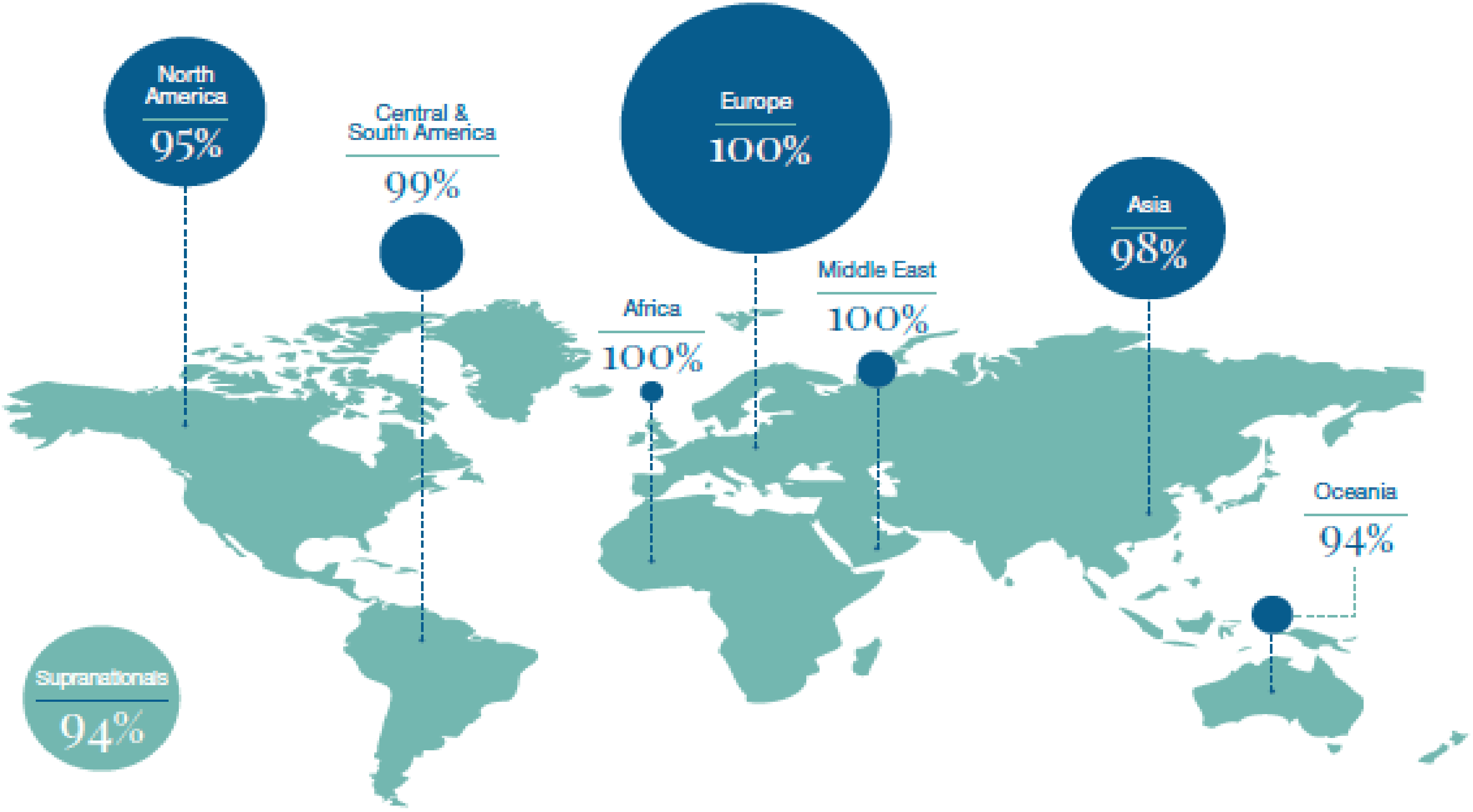
- **Green bonds:** any type of bond instrument where the proceeds will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects and which are aligned with the four core components of the GBP.
- **Social bonds**: Social projects.
- **Sustainability Bond**: A mix of green and social projects.
- **SLBs**: any type of bond instrument for which the financial and/or structural characteristics can vary depending on whether the issuer achieves predefined Sustainability/ ESG objectives.
- **CTFH**: framework for clear guidance and common expectations to capital markets participants on the practices, actions and disclosures to be made available when raising funds in debt markets for climate transition-related purpose.



The Principles – a global standard

Percentage of sustainable bonds by region that were based on GBP, SBP, SLBP (excluding supras) in 2022:

Circle size is proportionate to total sustainable bond issuance by region

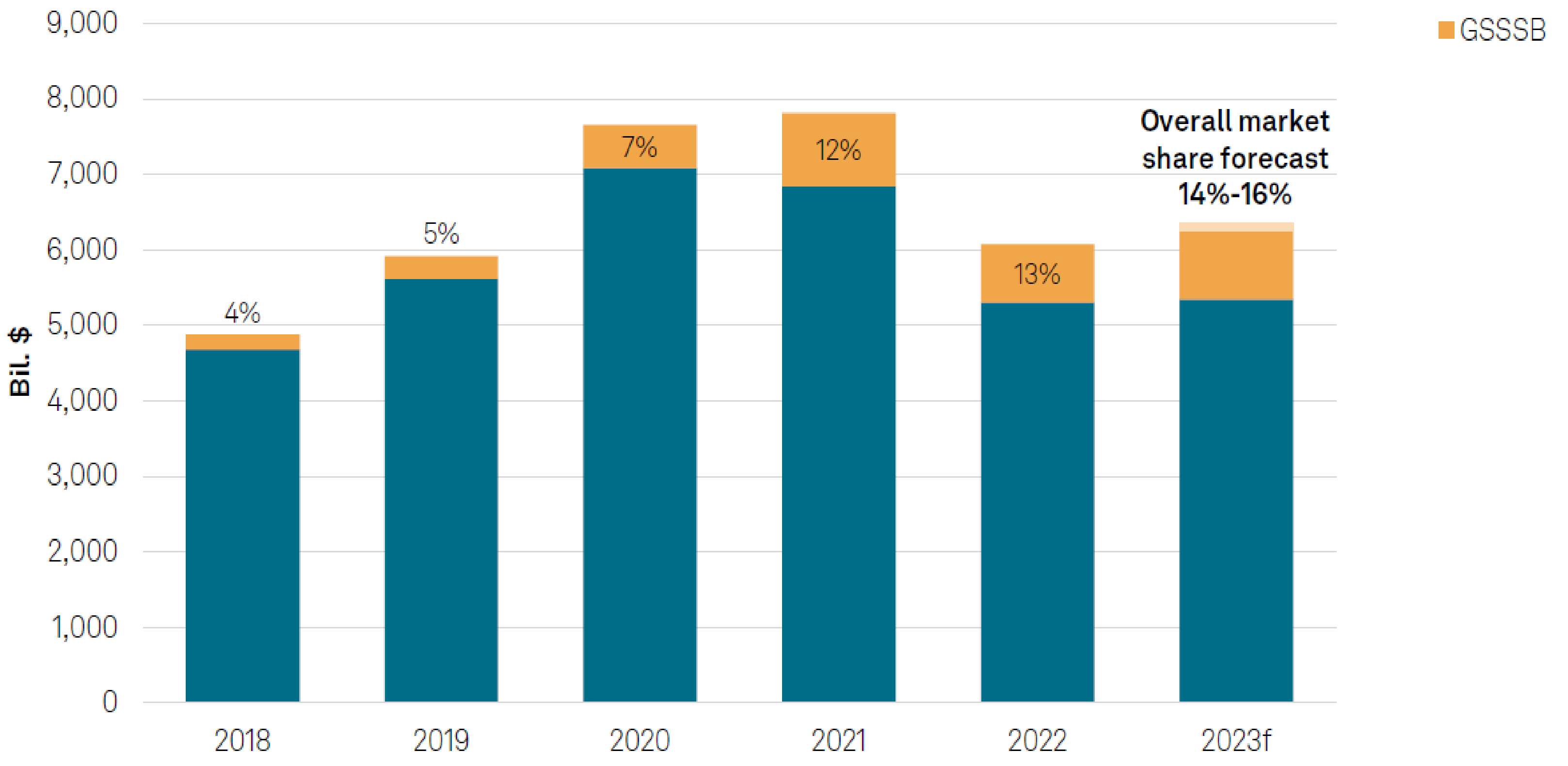


ICMA analysis based on LGX DataHub

Increasing share of sustainable bonds in the overall market

- As of 18 November 2023, the total outstanding volume of sustainable bond markets is around USD 3.8 trillion, still small compared to the outstanding volume of the overall bond markets (around 3%).

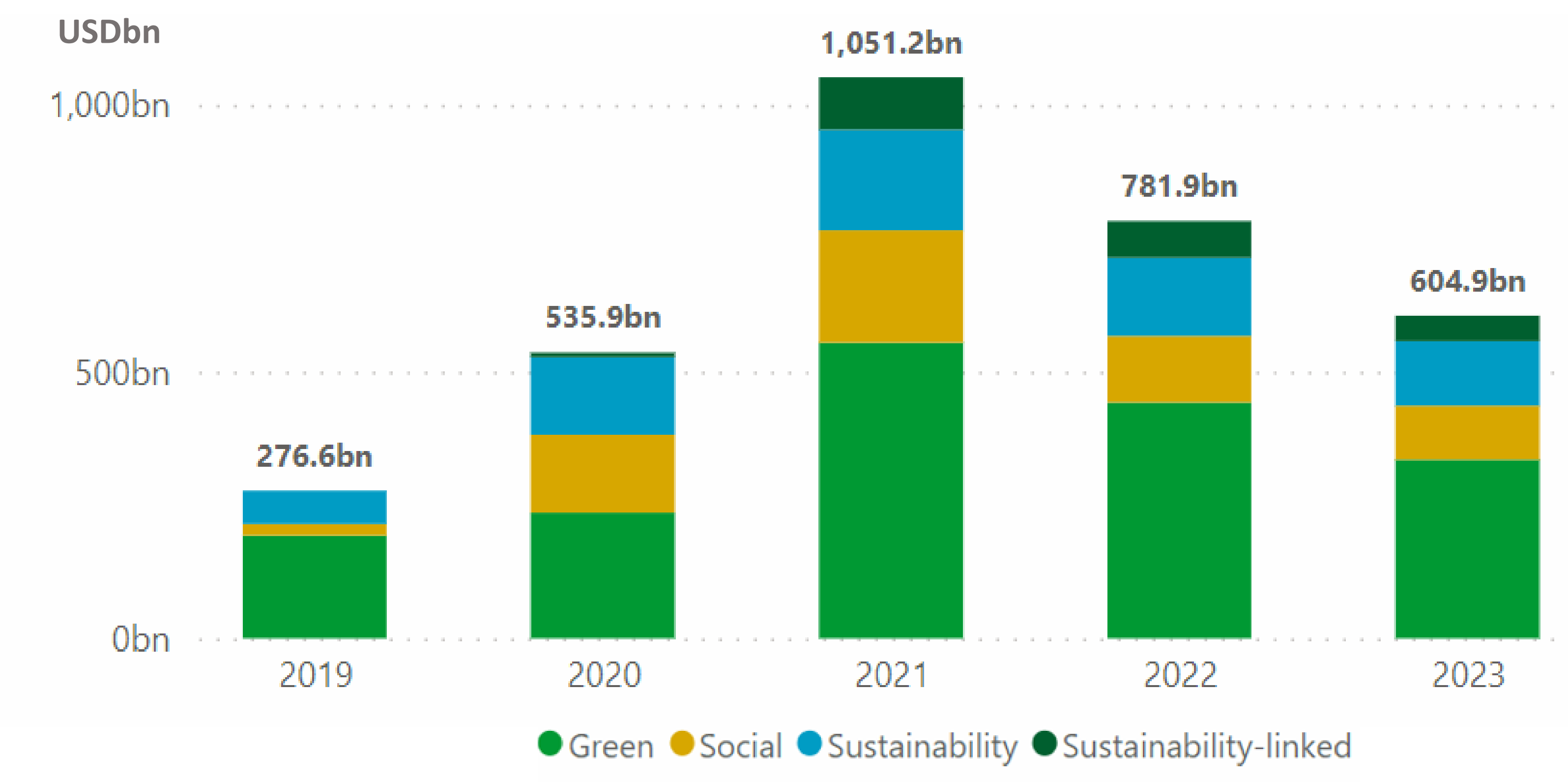
- However, recent years have seen the share of sustainable bonds substantially increasing, despite a general decline in bond markets due to broader macro-economic context.



Note: Excludes structured finance and sovereign issuance. Sources: Environmental Finance Bond Database, S&P Global Ratings.

Source: S&P Research – "Sustainable Bond Issuance Will Return to Growth in 2023"

Sustainable bonds market per product type (USDbn)

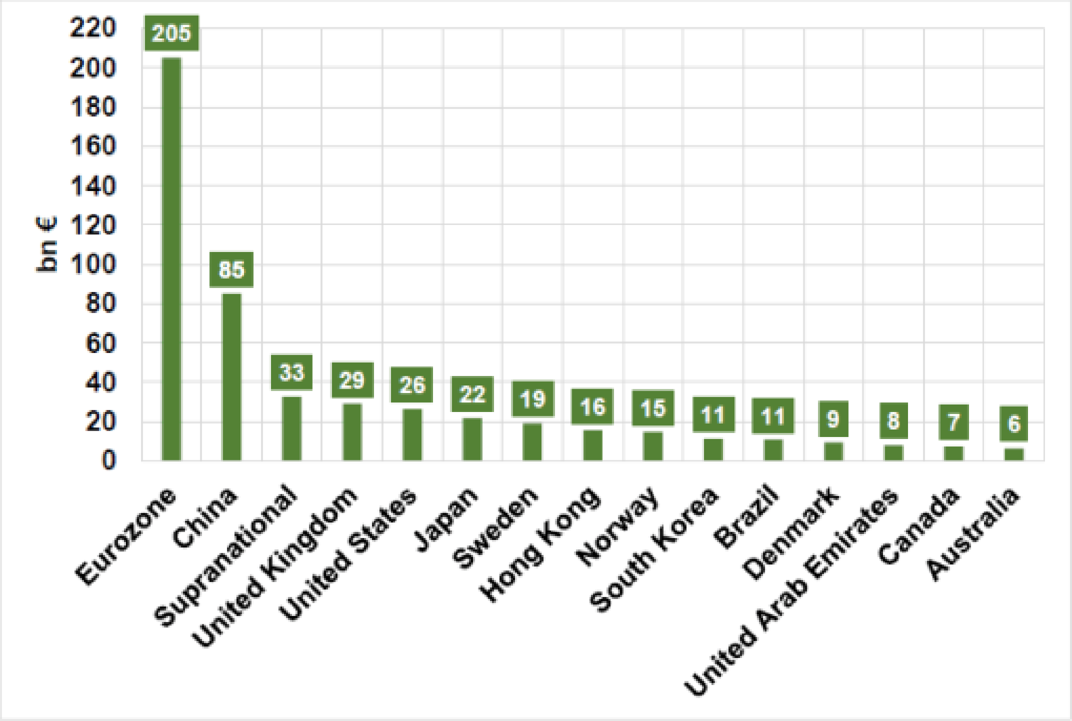


Type of bond	Green		Social		Sustainability		Sustainability-linked	
Year	Issued amount USD	% Issued amount USD	Issued amount USD	% Issued amount USD	Issued amount USD	% Issued amount USD	Issued amount USD	% Issued amount USD
2019	192,858,992,247.6	69.72%	21,710,699,336.0	7.85%	62,041,839,628.1	22.43%		
2020	236,039,050,550.5	44.05%	145,457,105,275.4	27.14%	145,869,667,937.9	27.22%	8,530,133,492.6	1.59%
2021	554,027,399,465.8	52.71%	210,533,360,449.2	20.03%	188,464,170,680.8	17.93%	98,149,292,624.0	9.34%
2022	442,800,881,441.7	56.63%	123,764,778,759.3	15.83%	147,137,931,764.8	18.82%	68,198,752,470.0	8.72%
2023	335,418,864,786.6	55.45%	101,157,343,314.4	16.72%	120,175,605,705.7	19.87%	48,154,663,271.7	7.96%

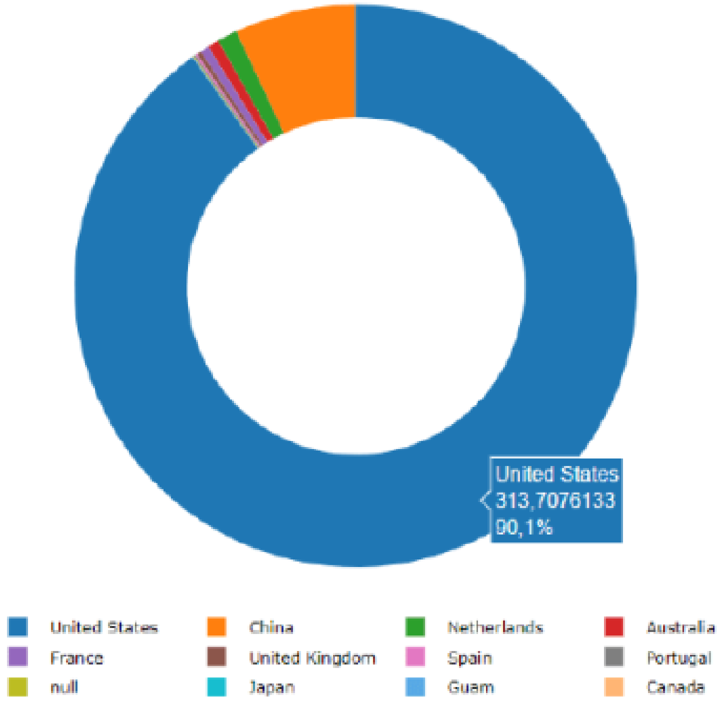
Source: LGX (18.11.2023)

Sustainable Financial Instruments

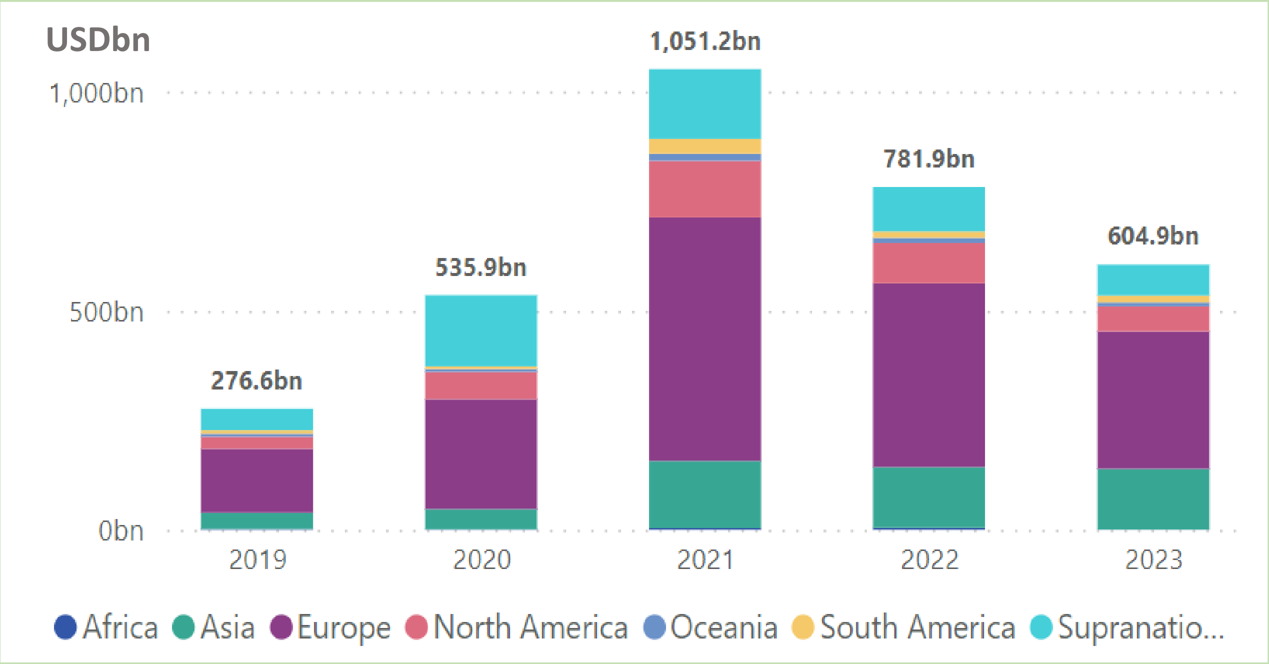
Volumes d'émissions d'obligations vertes en 2023
(milliards d'€)

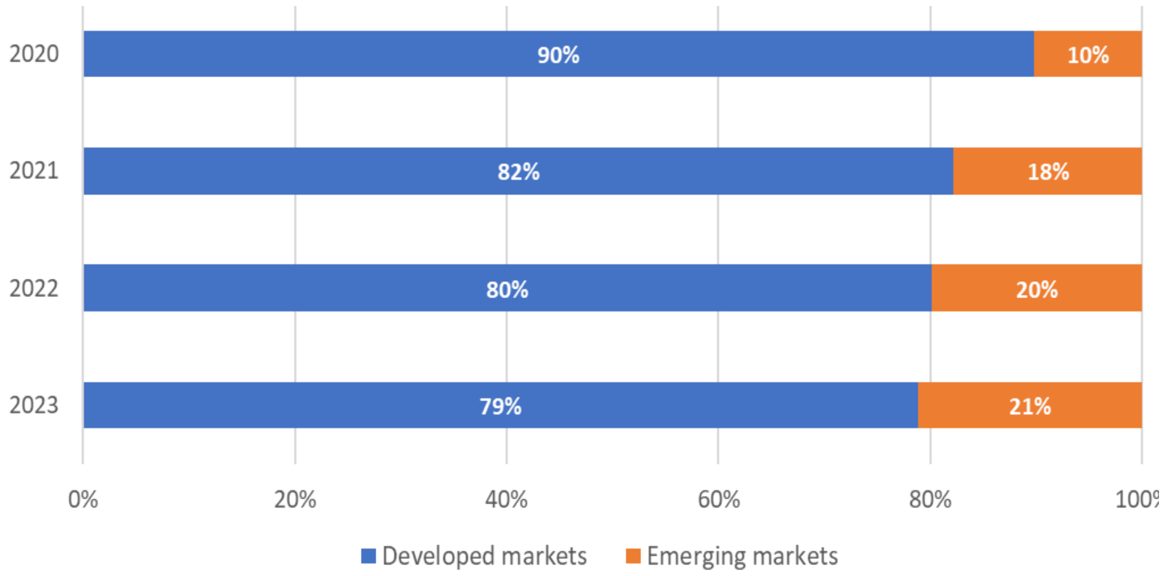


Principaux pays émetteurs de titrisations vertes en 2023
(milliards d'€)



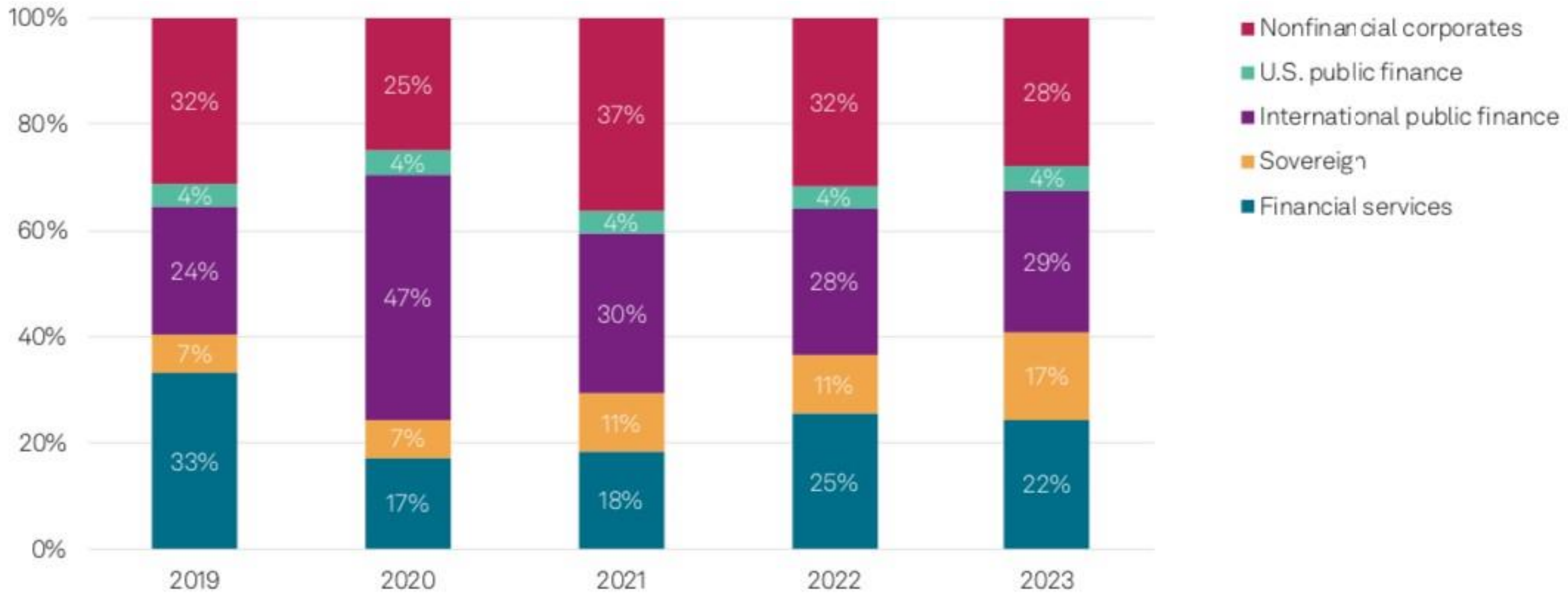
Sustainable bonds market per region (USDbn)





Source: LGX (18.11.2023)

Sustainable bonds market per issuer type (USDbn)



GSSSB--Green, social, sustainability, and sustainability-linked bonds. Sources: Environmental Finance Bond Database. S&P Global Ratings.

Greenwashing risks and global regulatory trends

Market integrity and greenwashing risks in Sustainable Finance

- **ICMA recommendations** to policy makers and regulators:
  - Concentrate on actionable areas of concern in sustainable finance
  - Help improve the availability of data on market integrity in relation to these areas
  - Reference existing legislation where enforcement may be needed
  - Implement current regulatory initiatives with a focus on international interoperability and usability
  - Continue to leverage the positive contribution of market best practice

- Released in Oct. 2023, ICMA's paper makes several points:
  - **Exhaustive greenwashing definitions** that do not incorporate existing concepts (e.g. intention/negligence, harm) **may cause market paralysis or regression** due to excessive reputational or litigation concerns.
  - **Existing laws and mechanism are already relevant** to address serious misrepresentation.
  - **Data on Greenwashing shows a nuanced result**: Greenwashing in the UoPs market is not prevalent while there is a positive trend in the SLB market despite potentially insufficient materiality and ambition in the initial phase of the development of this market segment. In the fund market, concerns exist.
  - **Unpacking areas of concern for bond and fund markets separately is more actionable**. For sustainable bonds, the categories are: (i) lack of ambition; (ii) strategic inconsistency; (iii) mismanagement of wider sustainability risks; (iv) actual deception. For funds, these are: (i) vague or ambiguous responsible investment strategies; (ii) unclear or misleading fund naming and labelling, and (iii) actual deception.
  - **Alignment with the ICMA Principles** (for sustainable bonds) as well as **usable and interoperable** implementation of **regulatory initiatives** are highly relevant to address GW risks.

Towards rules for sustainable fund naming and disclosures

- **As greenwashing concerns mainly focused on the asset management industry, IOSCO recommended** to both policymakers and industry standard setters to provide **additional requirement or guidance including on product-level disclosures and practices**. Among other things, these would include **parameters for the naming of products and for labelling and classification**, **as well as disclosures on investment objectives and strategies:**

  - In November 2023, In November 2023, the UK FCA published its final rules and guidance, which, among other things, provides 4 voluntary fund labels: ""Sustainability Impact", "Sustainability Focus", "Sustainability Improvers", and "Sustainability Mixed Goals".

  - In the EU, the Commission is currently conducting a consultation on the SFDR with an aim to determine the future initiatives to address the current challenges. These include especially the mis-use of the current disclosure regime as a de-facto labelling by market participants (i.e. with reference to Art.8 and Art.9 funds). The Commission is testing the water for the introduction of a formal labelling system as well as some uniform disclosures that would apply to all funds regardless of their sustainability claims.

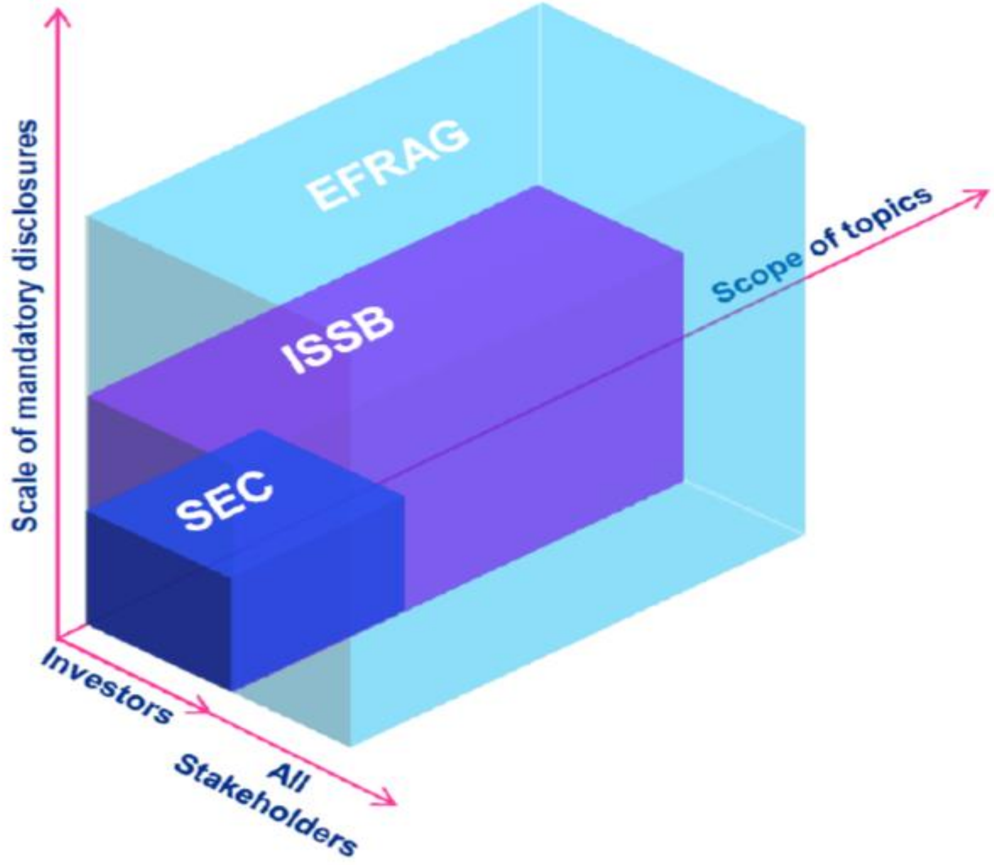
  - In February 2023, the ASEAN Capital Markets Forum published the ASEAN Sustainable and Responsible Funds Standard to provide minimum disclosure and reporting requirements for funds that seek to qualify under the standard. The standard provides that the name of an ASEAN Sustainable and Responsible Fund should accurately and proportionately reflect the sustainability features as set out in investment strategies or objectives. The standard lists such potential investment strategies (e.g., active ownership, ESG integration, impact investing, negative and positive screenings) on a non-exhaustive basis backed-up with definitions for each of these and provide that a minimum two thirds of underlying investments should be made and maintained in accordance with designated strategies or objectives.

  - In 2023, similar sustainability-related fund naming restrictions have also been adopted in the US and in Japan*.

Corporate sustainability disclosures

- **Background**: Investor demand for corporate sustainability data has led to the establishment of ISSB by the IFRS Foundation during COP26 while other official sector supported initiatives have also been launched recently to address fragmentation in sustainability reporting, make it more widely available, and enhance its quality.

- **Recent groundbreaking announcements**:
  - In June 2023, ISSB finalised its inaugural reporting standards IFRS S1 (general requirements) and IFRS S2 (climate change).
  - Several jurisdictions (e.g. Australia, Brazil, Canada, China, Japan, Hong Kong, Japan, Malaysia, Singapore, South Korea, UK) have already expressed their intention to adopt the ISSB standards.
  - In July 2023, the European Commission adopted in parallel its European Sustainability Reporting Standards (ESRS) recommended by EFRAG. These apply to the companies subject to the Corporate Sustainability Reporting Directive (CSRD). The ESRS adopt the “double materiality” approach and is the most comprehensive and prescriptive reporting framework.
  - Separately, the EU’s Corporate Sustainability Due Diligence Directive foresees obligations for social and environmental due diligence and addressing adverse impacts in own operations, subsidiaries, and throughout value chains.
  - Both under the CSRD and CSDDD, requirements to assess the value chains would potentially impact third-country companies and suppliers including potentially the SMEs.



Source: KPMG

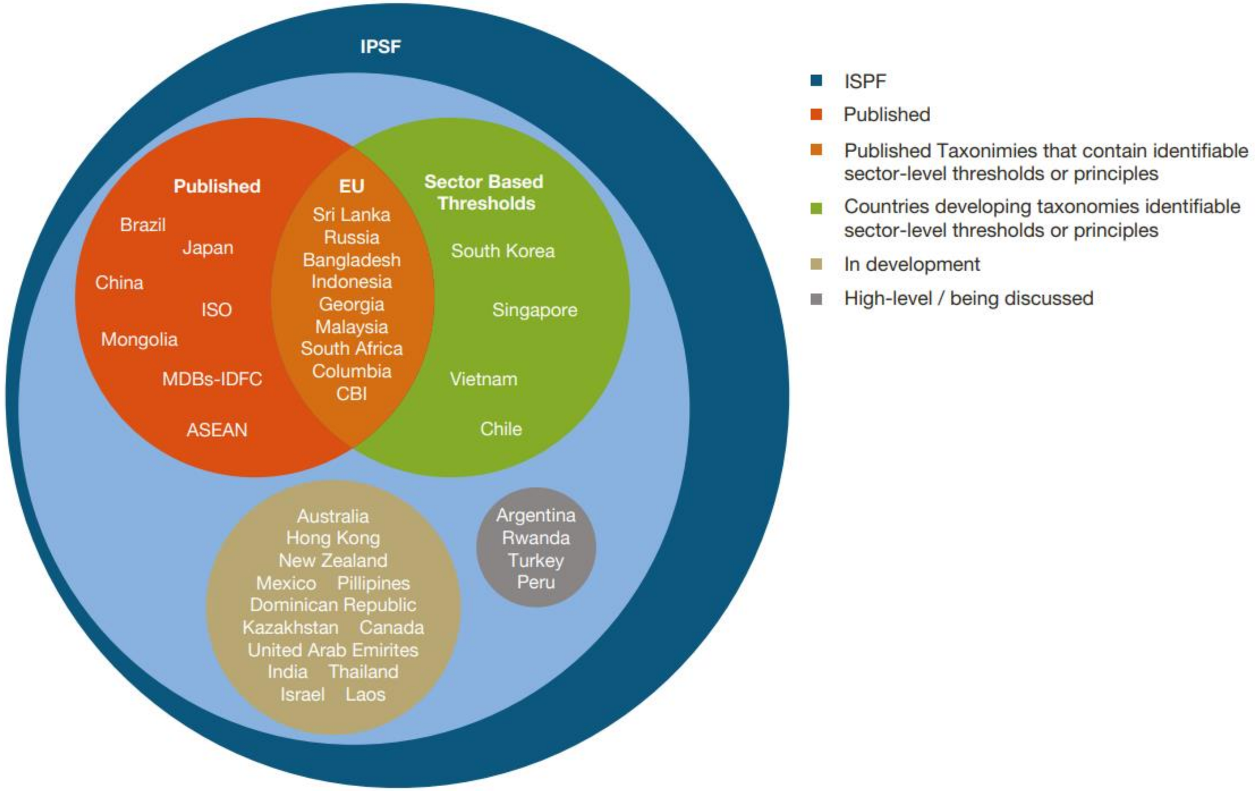
Taxonomy initiatives around the globe

- With the EU spearheading one of the most sophisticated and detailed taxonomy initiative, several other jurisdictions have followed suit.

- **International consistency and operability** is hindered due to differences in national priorities, taxonomy structures, stringency etc. There are multilateral efforts, such as the Common Ground Taxonomy to enhance interoperability.

- **The EU Taxonomy currently suffers from various usability problems** (e.g., lack of coverage by TSC of the overall EU economy, narrow criteria not sufficiently incorporating transition; DNSH and other usability challenges, etc.), which all together lead to very low alignment figures. The European Commission acknowledges these issues and will prioritise usability and implementation.

- The current challenges with the EU Taxonomy **would also impact negatively the uptake of the recently finalised EU Green Bond Standard** (see here). ICMA publications on taxonomies can be found here.



Source: Promoting the international interoperability of a UK Green Taxonomy, GTAG, Feb.2023

Transition finance in the sustainable debt capital market

Transition and Sustainable bonds

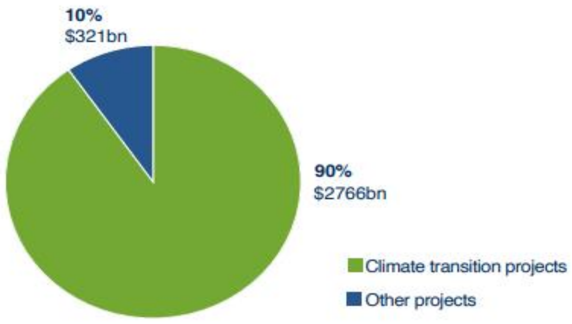
- **Outstanding volume** of the sustainable bond market: **USD4 trillion** (green Use of Proceeds bonds: 77% and SLBs: 6%).

- **Sustainable bonds** contribute at scale to “**climate transition**” with an estimated **90% of UoPs** being for the decarbonisation of energy, buildings, and transport, and **69% of SLB KPIs** being based on GHG reductions and/or RE increase.

- However, sustainable bond **volumes from fossil fuel and hard-to-abate issuers are small** (3.6% of outstanding market; labelled “climate transition bonds” at 0.4%). In part, this is due to **a lack of consensus on acceptable technologies, trajectories, and greenwashing fears**.

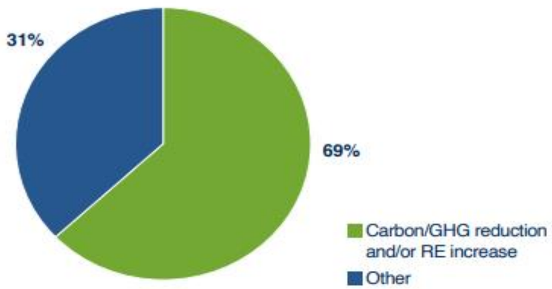
Climate Transition Finance

Climate transition projects in the green & sustainability bond market (in USD bn)



Source: Bloomberg

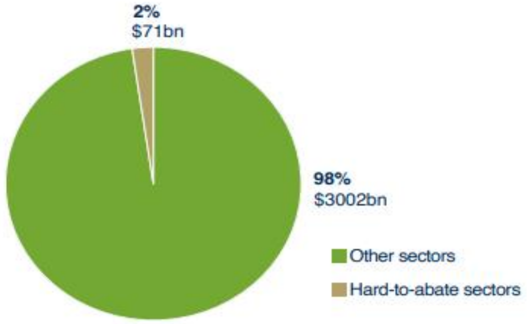
Climate transition KPIs in the SLB market



Source: Natwest (based on a tracked sample of large public transactions)

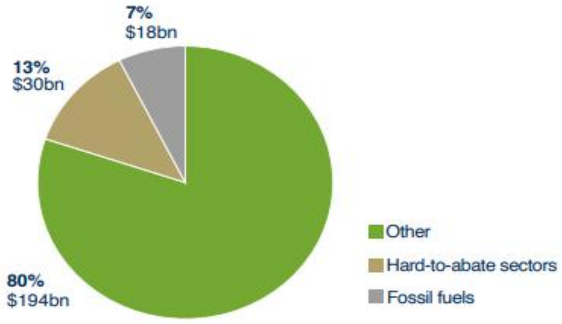
Hard-to-abate transition finance

Hard-to-abate & fossil fuel transition in the green & sustainability bond market (in USDbn)



Source: Bloomberg

Hard-to-abate & fossil fuel transition in the SLB market (in USDbn)



Source: Bloomberg

Transition finance : recommendations

- **Transition finance is a priority discussion since 2022**. It is generally understood as financing provided to carbon-intensive industries for decarbonisation purposes.

- **Transition finance is available but not yet where it may be most needed**: Sustainable bonds contribute at scale to climate transition. The greatest challenge of transition finance resides, however, with the fossil fuel and the hard-to-abate industries as illustrated by the modest amounts raised to date by issuers from these sectors.

- **Issuers can aim to overcome reputational concerns with official and market guidance:** The additional guidance in the form of taxonomies incorporating transition and sectoral decarbonisation pathways and roadmaps can provide significant comfort to issuers on addressing uncertainty on acceptable technologies, trajectories, and greenwashing.

- **The voluntary adoption of standardised transition plans could unlock the market:** Our paper encourages the early adoption of credible transition plans ahead of a potential regulation or a “de facto” requirement. We propose an “integrated transition plan” structure building on the CTFH, the ISSB standard (IFRS S2), ESRS E1, and the UK TPT recommendation.

Climate Transition Finance Handbook

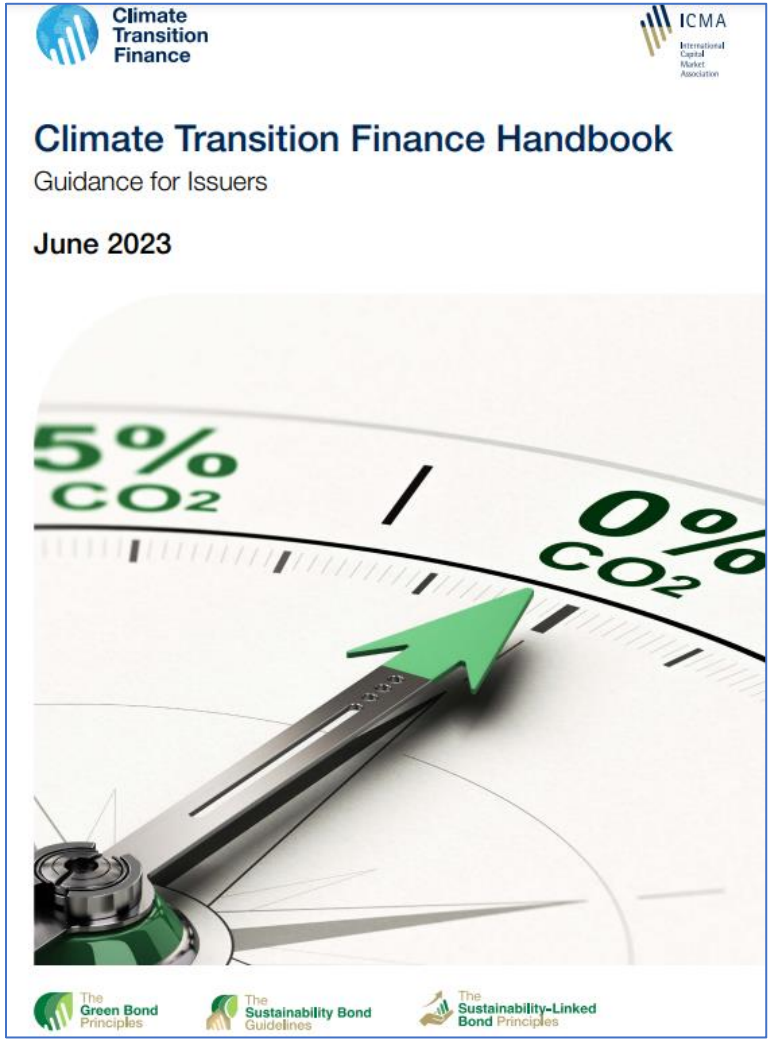
- ICMA's Transition Finance Handbook provides issuer-level alignment and disclosure requirements, which are primarily intended to ensure investor confidence towards transition-themed GBs and SLBs of hard-to-abate sector issuers. The 4 main pillars of the Handbook are:

  - **Issuer's climate transition strategy and governance**: financing to be directed towards enabling the issuer's decarbonisation strategy in line with the Paris Agreement.

  - **Business model environmental materiality**: Transition strategy should be material to the environmentally material parts of an issuer's business model.

  - **Climate transition strategy to be science-based**: Transition strategy should reference science-based targets and transition pathways.

  - **Implementation strategy**: market communication should be transparent on the underlying investment programme.



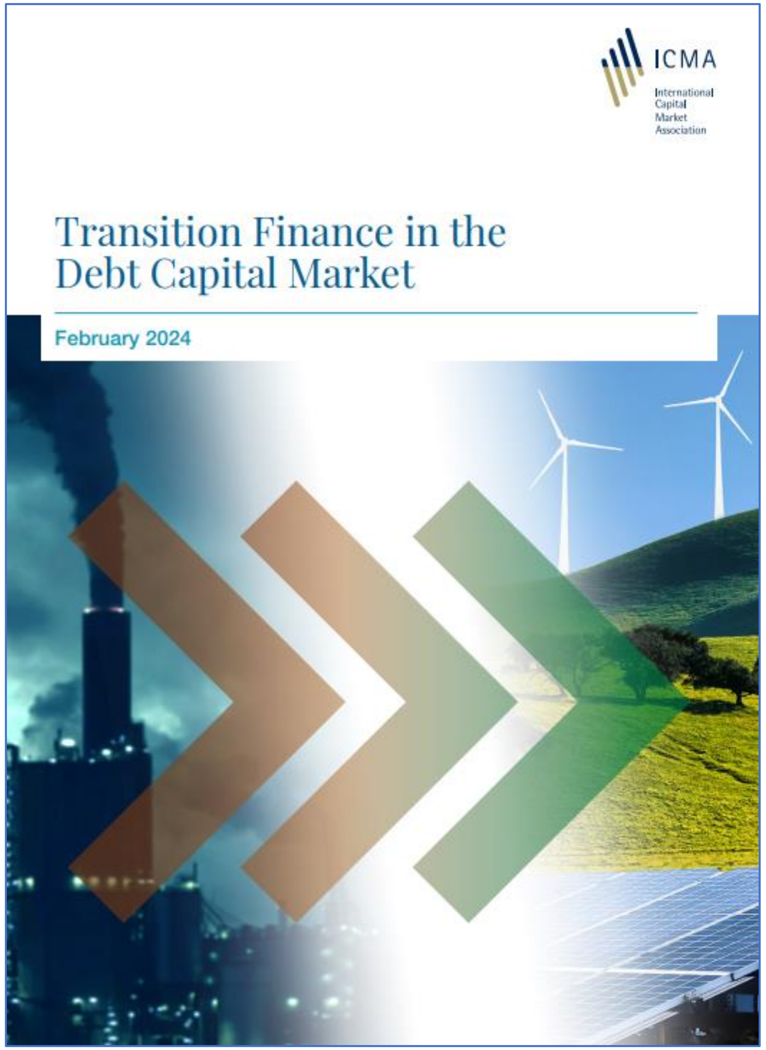
Annex 1: ICMA publication

“Transition finance in the debt capital market”

Overview of the new ICMA publication

- **On 14th of February, ICMA published a staff paper which**:

  - Unpacks existing definitions of “transition finance”;
  - Demonstrates how sustainable bonds contribute to transition;
  - Highlights the relevance of official sector and market-based guidance and tools such as taxonomies, pathways, and roadmaps for further market development;
  - Points to transition plans as a real opportunity; and,
  - Promotes the early adoption of transition plans by also proposing a structure for an “integrated transition plan” that builds on the CTFH, IFRS S2, ESRS, the UK TPT recommendation.



Existing transition finance guidance

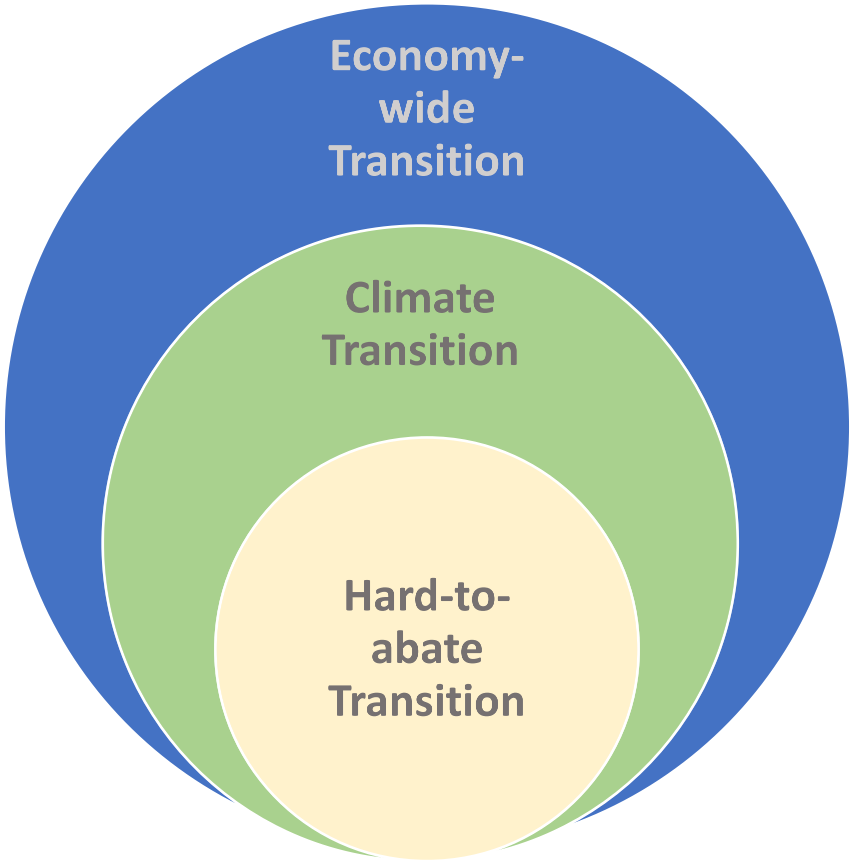
- The **Climate Transition Finance Handbook** (CTFH) published in 2020 and updated in June 2023:
  - The CTFH aims to clarify issuer-level practices, actions, and disclosures to credibly position UoPs bonds and SLBs, particularly those from "hard-to-abate" sectors.
  - **<u>Pillars of the CTFH</u>**: (i) climate transition strategy and governance; (ii) business model environmental materiality; (iii) climate transition strategy and targets to be "science-based"; (iv) implementation transparency.

- There are also **other** significant transition finance guidance **leading sources**, such as the **ACMF, CBI, European Commission, GFANZ, G20, Japan's METI, OECD**.

Lenses of transition

- There are at least three overlapping definitions for "transition finance" in general use:
  - **Economy-wide transition** refers to transformation of the entire economy with the objective of meeting the goals of the Paris Agreement but also wider sustainable objectives (e.g. biodiversity or circular economy) embedded in taxonomies, or with reference to the UN SDGs.
  - **Climate transition** covers the goals of the Paris Agreement and the target of achieving Net Zero but typically with a narrower sectoral or industry focus especially on the energy and high-emissions sectors.
  - **Hard-to-abate transition** emphasizes the specific challenges of reducing the emissions of the fossil fuel and hard-to-abate sectors or promoting more sustainable alternatives to their output.

- **Appendix D** of our Paper provides a **non-exhaustive list of existing transition finance definitions** from leading sources.



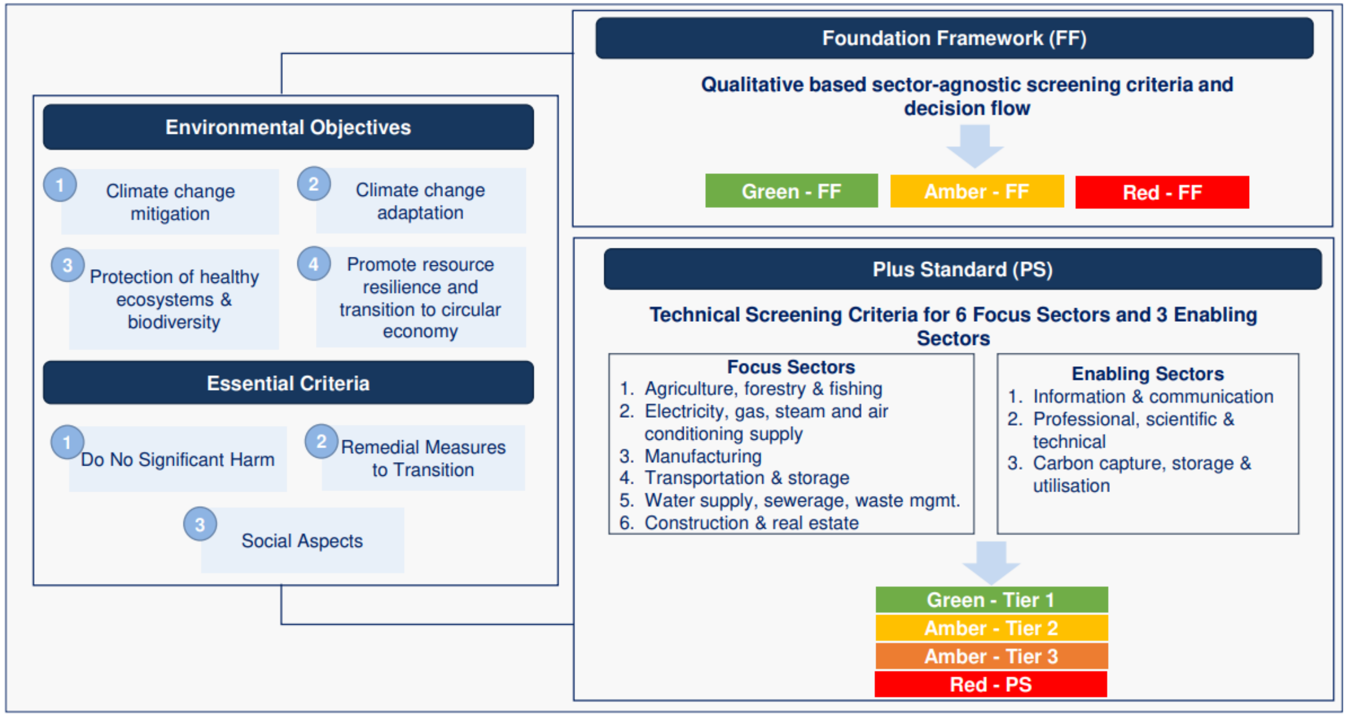
Expanding the market with taxonomies

ICMA International Capital Market Association

- **Transition in taxonomies**: e.g., recognition of interim/amber performance, sunset dates, regular criteria tightening, requirement of entity-level plans backing up an activity level transition, CapEx focus, etc.
- **Appendix C** of the paper provides an overview of the transition related features of leading official and market taxonomies.
- **Taxonomies' transition approaches can be categorised as**: (i) transition as an activity with an outcome (e.g. EU Taxonomy); (ii) project/whitelist approaches (e.g. China's Green Bond Catalogue); (iii) the "traffic lights" approach (e.g. the ASEAN Taxonomy); (iv) integrated approaches (e.g., CBI); (v) transition as a managed phase-out (e.g. the Singapore-Asia Taxonomy).

EU Taxonomy

Eligibility approaches	Transitional activity examples	Substantial Contribution criteria
Quantitative thresholds with physical intensity metric1	3.7: Manufacturing of cement	"grey cement clinker where the specific GHG emissions are lower than **0,722 (100) tCO2e per tonne of grey cement clinker**"
Quantitative thresholds embeddi pathway	6.7: Inland passenger water	"…where technologically and economically not feasible to comply with point (a), from 1 January 2026 onwards the yearly average GHG
Relative improven		
Sunset da		

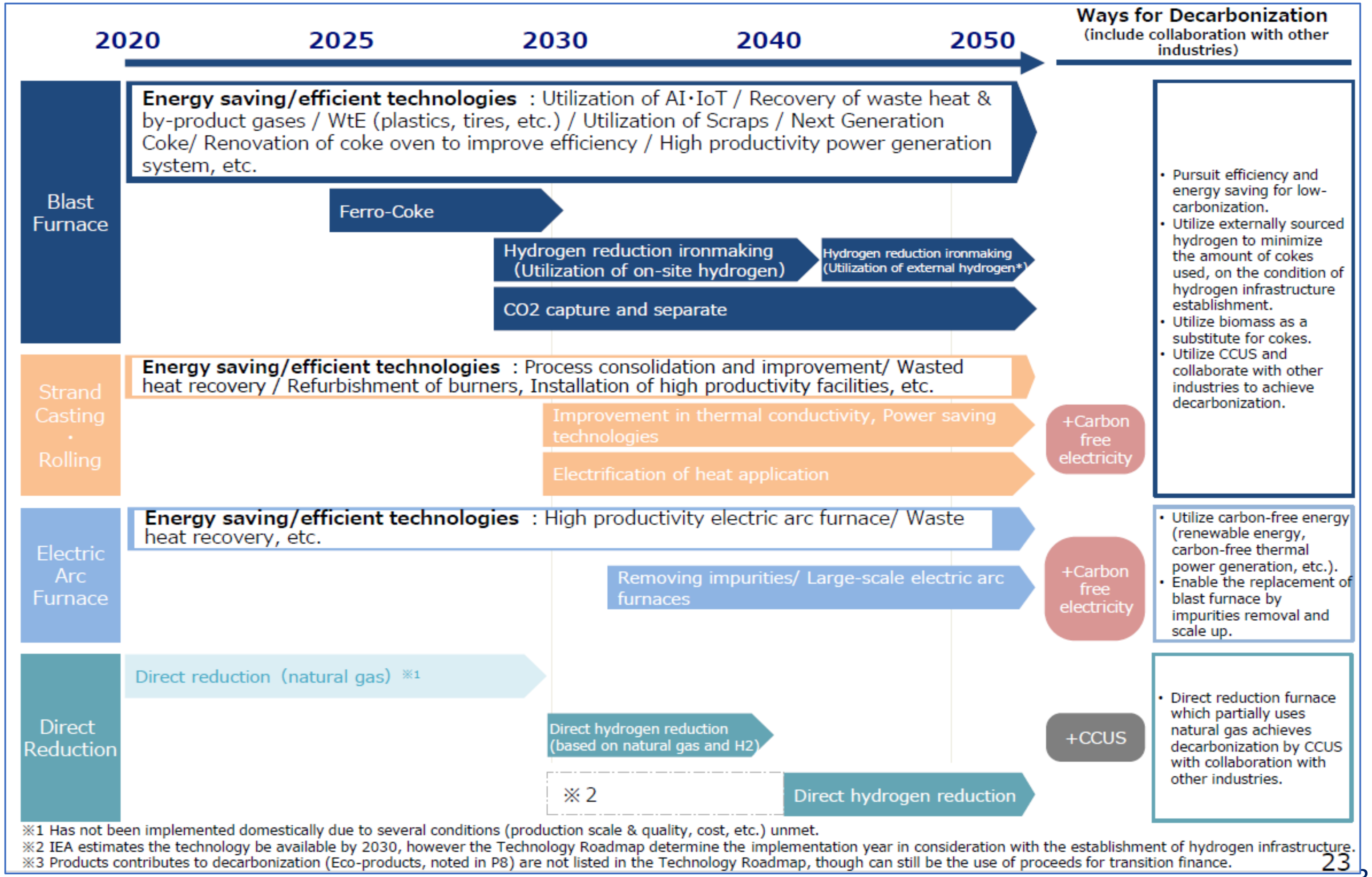


ASEAN Taxonomy

Decarbonisation pathways and roadmaps

- **Japan METI's sectoral decarbonisation roadmaps** provide expected corporate level actions and technologies together with an implementation timeline toward the 2050 carbon neutrality objective.
- Many sources highlight **the need for developing sectoral pathway guidance for different regions**.
- **The IEA scenarios** are highly relevant to demonstrate ambition and provide context to sustainable bond issuances. These are used and referred to when jurisdictions develop their own pathways and roadmaps as well as in market-led certifications (e.g. SBTi).

Japan METI's Roadmap for Transition Finance in Iron and Steel Sector



Being ahead of the curve with transition plans

- **Transition plans**: Entity-level, forward-looking disclosures on decarbonisation ambition, targets, actions, means, and financial and other resources that are of strategic nature and supported by effective climate governance. They are included as a sub-reporting concept under corporate sustainability reporting frameworks IFRS S2 and ESRS E1.

- **Requirement for transition plans**: initially disclosure only. However, regulation may soon make transition plans mandatory. Also, investors and banks may increasingly ask and assess issuer transition plans due to their own committements to reduce financed emissions. As such, these can increasingly become a “de facto” requirement.

- **Creating further dynamics**: ICMA’s SFDR consultation response (Dec. 2023) recommended to consider a uniform disclosure imposed on **all funds** (even those without a sustainability claim): **“(%) of the fund which is exposed to entities implementing credible transition plans where climate risks are material**”. This may prove an easy-to-understand metric especially for retail investors and create a pressure on investees to adopt transition plans where this is not already required by law. As such, it may help reorienting capital flows towards credibly transitioning investees.

- **ICMA encourages the early adoption of transition plans.** As with CTFH, adopting a credible transition plan would support climate transition-themed bond issuances by providing a strategic and broader context; 2) helping against lock in controversy; 3) enhancing SLB market practices due to the overlapping entity-level and forward-looking nature.

- **Need for international consistency**: current variation in the level of specificity, prescriptiveness, detail, structure, and the location for transition-related elements under IFRS S2, ESRS E1, UK TPT frameworks. The UK TPT’s proposal, as a “gold standard”, stands out as the most focused, structured, and detailed framework.

Appendix A - Key actions & disclosures for an integrated transition plan under CTFH, IFRS S2, ESRS E1, & UK TPT

ICMA International Capital Market Association

Elements	Key actions & disclosures
Transition strategy, materiality & governance	• Adopt a Paris-aligned (ideally its 1.5°C objective) and quantitatively measurable climate transition strategy and targets using science-based pathways provided by recognised third-party sources, where they exist, and disclose methodologies and scenarios used, as well as any third-party certification. • Ensure that climate transition strategy is relevant to the environmentally material parts of the business model. • Ensure effective climate governance arrangements including senior management approval of the plan and accountability, remuneration/ incentive schemes linked to the transition strategy, and necessary skills and training across the organisation. • Where relevant, consider "just transition" and disclose broader sustainability policies addressing negative sustainability impacts and trade-offs. • Position transition plan as a standalone document sitting alongside financial reporting.
Science-based targets & metrics	• Disclose GHG emissions covering all material Scopes as formulated in absolute (gross tCO2e), economic output (per net revenue), and industry-based metrics. • Adopt and disclose absolute gross (tCO2e), and where relevant, intensity-based targets for all material GHG Scopes. When only intensity targets set, disclose also the associated absolute values. • Adopt short (ideally 3 years max.), medium, and long-term targets, and in any case for 2030, from which date baselines and targets should be updated every 5 years. • There should not be any reliance on offsets except for residual (approx. 5-10%) emissions in net zero targets, in which case they should be disclosed separately and include credibility proof.
Implementation transparency	• Disclose all the relevant information on (i) planned changes to the business model, operations, products, as well as relevant policies and processes supporting those; (ii) actions for short (ideally 3-years max.), medium, and long term; (iii) planned investments, financial resources, and other financial metrics; (iv) internal carbon pricing; (v) engagement strategy and actions for value chains, with industry, public sector, and civil society. • Provide a credible link between the various levers and the transition strategy and quantify the contribution from different levers to climate objectives at least on an estimated basis. • Where relevant, disclose potential adverse sustainability impacts and mitigating actions and expenses (e.g. for "just transition").
Verification & reporting	• Obtain an external review assessing the credibility of the entity's strategy, its alignment to the referenced science-based trajectories, and its climate governance alongside any potential jurisdictional requirement required for sustainability reporting (e.g., limited or reasonable assurance). • Report annually quantitative and qualitative information on the progress against transition plans, targets, and metrics. • Regularly update the transition plan (ideally every 3 years), and when there are significant changes.

Appendix B provides a comparison of key transition related elements and disclosures under CTFH, IFRS S2, ESRS E1, and UK TPT frameworks.

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