

Euronext ESG Bond Barometer

Every quarter, the ESG Barometer brings you fresh sustainable finance news, with a specific focus on the ESG debt market. It contains two long exclusive interviews with sustainable leaders, who share their views on the market and explain their sustainable strategy.



In this edition, Ferrovie dello Stato and Å Energi take the stage.

Penalties for SLBs are going up

The usual 25bp coupon step-up for Sustainability-Linked Bonds (SLBs) has lost its supremacy.

Following the drastic rise in interest rates and investors increasingly challenging the ambitiousness and materiality of sustainability-bonds, issuers are now committing to higher potential penalties for these performance-based instruments.

In 2022, approximately 70% of SLBs had 25bp coupon step-ups. In 2023, the

market is showing a much more diversified spectrum of coupon step-ups, with only 25% still at 25bp. More than half of SLBs now have coupon step-ups that are equal or superior to 50bp.

This trend acts as an additional incentive for issuers to achieve their targets, provided that these targets are set in accordance with ambitious sectoral standards and a robust materiality assessment.

Final approval for the EU Green Bond Standard

The EU Parliament adopted the final text for the creation of a voluntary European standard for green bonds. The standard is establishing templates for creating and reporting on green bonds, as well as a process for registering verifiers.

The EU Green Bond Standard, which is highly demanding due to the necessity of aligning investable projects with the EU Taxonomy, will act as a gold reference for all green bond issuers. Most importantly, it will prompt issuers to align their green funding operations with a clear transition strategy.

As part of the negotiations, the Commission committed to draft a similar regulatory framework for sustainability-linked bonds within the next three years.

Greenwashing risks seem to have decreased for SLBs

In its October report, "Market integrity and greenwashing risks in sustainable finance", ICMA draws a distinction between use-of-proceeds bonds (green, social, sustainability) and sustainability-linked bonds.

Whereas the first category does not raise any particular greenwashing concerns in the market, some investors have voiced suspicions about SLBs in 2022, specifically in relation to the ambition of their targets, as well as the materiality of their KPIs and penalties.

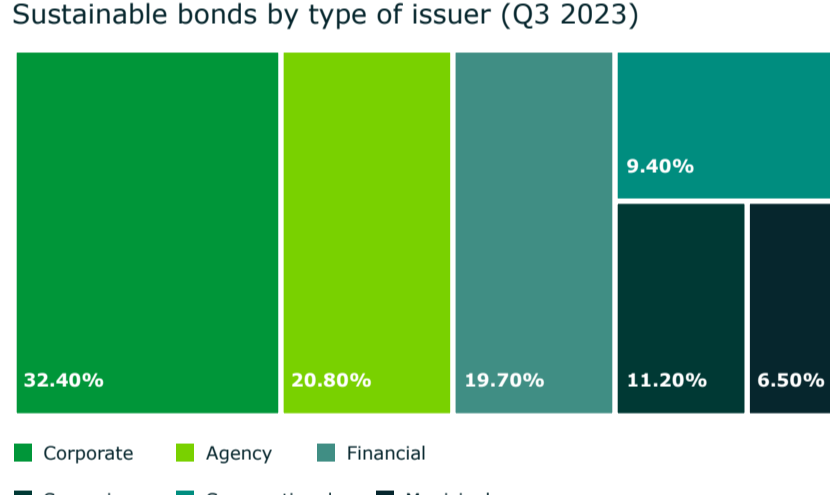
ICMA's study finds that 15% of the largest SLB issuers triggered some sort of controversy in 2022 and 2023, but that the trend is clearly declining over time. In addition, recent market feedback on the quality of SLBs is improving.

ICMA reminds us that SBTi-validated targets are a good proxy for ambition, which is aligned with Euronext's initiative to support and promote [SBTi-approved ESG bond issuers](#) in a best-in-class section.

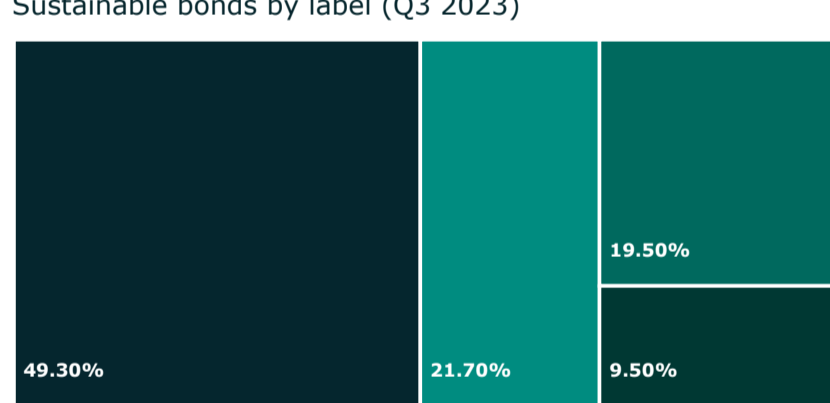
Trends & stats

The third quarter of 2023 was relatively sluggish in terms of ESG bond issuances, which is in line with the shrinking of the global bond market over the summer. USD 196bn of ESG bonds were issued in Q3 2023, mostly from Europe (40%) and Asia (28%).

Sustainable bonds by type of issuer (Q3 2023)



Sustainable bonds by label (Q3 2023)



However, the excellent first half and the quick rebound in Q4 will keep the value of 2023 bond issuances above the level of 2022, at around USD 950bn (still 10% below 2021 levels). This upturn benefits Euronext as corporate issuers, who suffered from the 2022 market conditions, are once again tapping the debt capital markets.

In addition, several issuers are preparing ESG products ahead of the COP 28 in Dubai, especially in the Middle East where sustainable issuances account for approximately 30% of the overall market; a trend similar to other emerging countries (Latin America, Africa). Worldwide, ESG bonds represent a 14% share of the debt market.

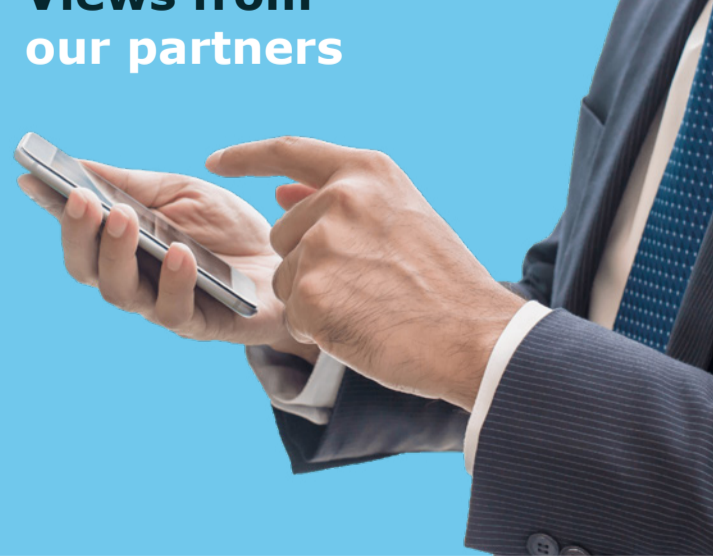
Evolution of the sustainable bond market (€bn)

	2021	2022	Forecast 2023
Euronext	300	220	298
Global market	1,100	911	950
Euronext market share	27%	24%	31%

With 2,200 ESG bonds listed on its markets, accounting for €1300bn, Euronext is officially the world-leading venue for sustainable debt instruments. We congratulate our 500+ ESG bond issuers for participating in the transition to a more sustainable and inclusive economy. To be continued...



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