Euronext ESG Bond Barometer Q3 2024

Every quarter, the ESG Barometer brings you fresh sustainable finance news, with a specific focus on the ESG debt market. It features a long and exclusive interview with a sustainable leader, who shares its views on the market and explain its sustainable strategy

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Feedback from Euronext Sustainability Week DCM events

In early September, Euronext organised a series of events across Europe as part of Euronext Sustainability Week, bringing together experts in sustainable finance. This group initiative included several conferences dedicated to debt capital markets, attended by bankers, issuers, lawyers and investors.

A number of topics came up repeatedly during these sessions, and it is clear that they are currently influencing and reshaping the debt capital markets.

The question of transition

Japan's large Transition Bond issuance in February reopened the debate on 'green' versus 'transition' finance. All over the world, transition taxonomies and private initiatives to tackle high-emitting issuers are emerging. In Europe, transition plans are now becoming mandatory for large companies, and the question of how to incorporate transition efforts in the supply chain is also being tackled.

In recent years, however, the focus of sustainable finance has been primarily on reporting. Investors and issuers seem to be locked in a 'tick-the-box' perception of the transition problem that does not take into account impact and additionality. ESG data is now easily available, at least in the EU. There is still a lack of harmonisation when it comes to impact reporting and carbon methodologies, but overall this should not hinder action. Hence the question remains: do investors really have the will and the power to influence environmental efforts effectively?

It is clear that the use of Green Bonds in itself does not bring additionality, as green projects would be carried out in any case. However, Green Bonds do help issuers to expand the reach of their bookbuilding and to connect their sustainability and finance teams internally. For investors, they are a useful tool to better understand the ESG strategy of the company, especially in Capex-intensive industries. Sustainability-Linked Bonds are a clear signal that a company has triggered a transition strategy, but as we will see, this standard is currently suffering.

Investor additionality can be achieved through investor engagement (microeconomic view) or through financial support (macroeconomic view). We observe that the concept of impact in capital markets is therefore far-reaching. Experience shows that investor engagement during sustainable bond issuances generally revolves around alignment with standards, choice of metrics and reporting methodologies, general questions about long-term objectives, availability of documents; however, it rarely involves short-term actions or business plans. From the macroeconomic perspective, it seems that the large amount of liquidity available in the market prevents any significant increase in the cost of capital for non-green issuers.

Despite these considerations, the nature of the bond market itself may save the day. Bond money is real money that needs to be allocated to real projects. Many issuers are doing the maths: issuing sustainable bonds means investing in a cleaner future. By opting for a sustainable standard, they demonstrate the financial effectiveness of their commitments.

Quick prospective overview: sustainability-linked and transition instruments

The decline in Sustainability-Linked Bond (SLB) issuances that we have observed over the past two years can be explained by a number of reasons. The lack of standardisation on key performance indicators, scope methodologies and targets is definitely a problem. But we can expect this market to remain active with best-in-class issuers unfolding their decarbonation plans and Mid Caps moving from Sustainability-Linked Loans (SLLs) to bonds.

Dual frameworks, merging green and sustainability-linked features, already represent best practice, as they combine precise timetables with green technology investment plans.

Following the guidance of ICMA, we may also see more banks issuing Sustainability-Linked Loan Bonds (SLL Bonds), consequently increasing the share of SLLs in the credit market and bringing more transparency on its underlying assets.

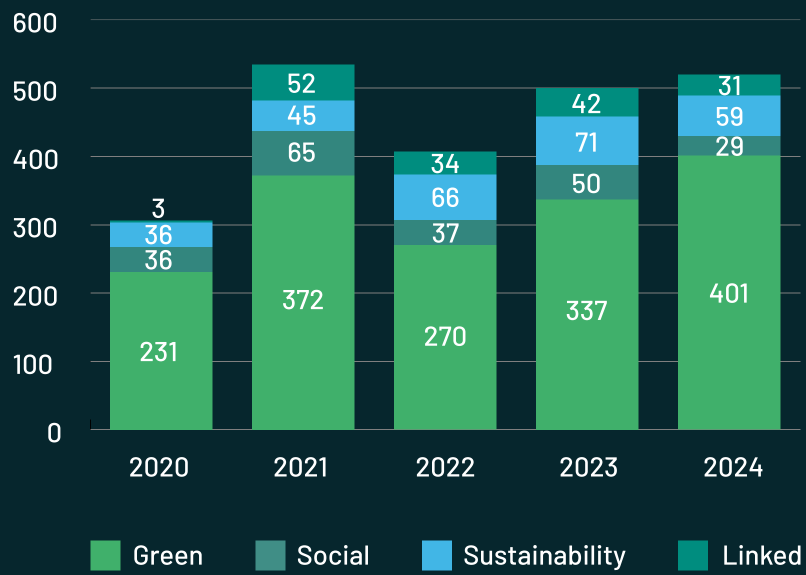
The use of transition bonds may rise in emerging markets and they could become an option for sovereigns, as transition taxonomies gain approval from investors.

In the loan market, we already see transition loans growing in Japan, and the transition loan framework from Norwegian bank DNB will certainly set a reference. This kind of qualitative framework could act as a necessary tool to make global climate objectives more manageable for the bulk of SMEs and Mid-Cap corporates.

Market trends

Labelled bonds are growing steadily, in line with the overall bond market.

ESG bonds listed on Euronext

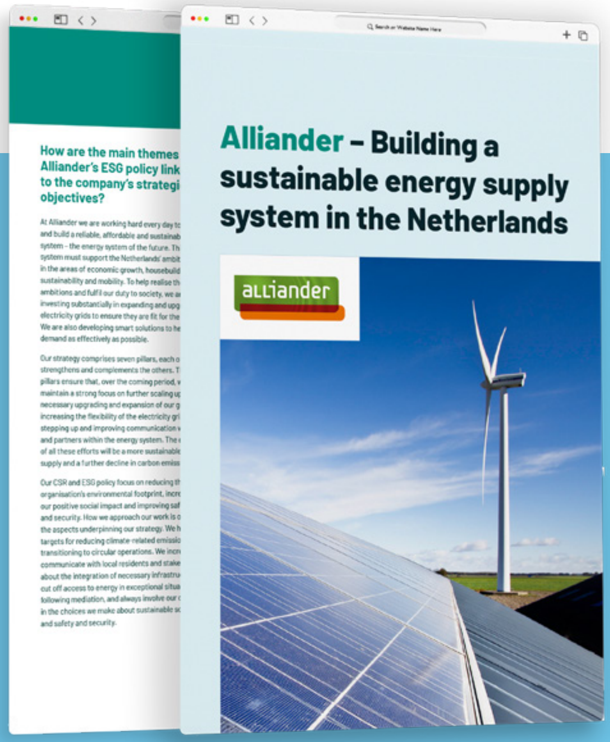


Analysis of the Key Performance Indicators (KPIs) used in SLBs in 2024

Perimeter: bonds listed on Euronext markets

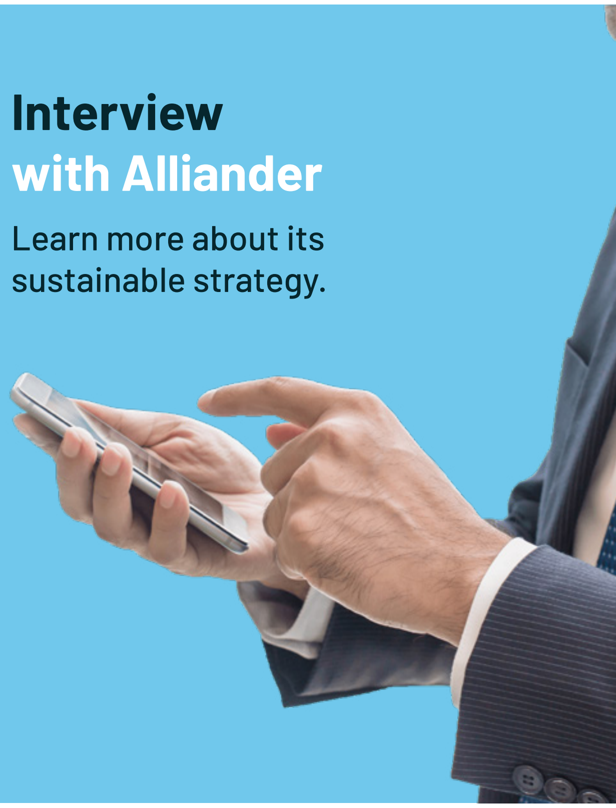
KPI	Occurrences	
GHG scope 1&2	15	Mundys Enel Snam Autostrade Delhaize Reno de Medici TWMA Eramet Pandora PostNL Impresa - SIC Pirelli Ülker Egis Carrefour
Carbon intensity	2	Vista Alegre Eramet
GHG scope 3	10	Mundys Snam Autostrade Delhaize TWMA Pandora PostNL Pirelli Ülker Egis
Carbon footprint assessment	2	Egis Norlandia
Renewables	2	Mundys Enel
EV charging points	2	Mundys Autostrade
Airport carbon performance	1	Mundys
Gas emissions reduction	1	Snam

KPI	Occurrences	
Clean buildings	1	Rikshem
Electric vehicles	2	CUF Norlandia
Suppliers' ESG commitments	2	Rikshem Eramet
Clients' ESG commitments	2	Mundys Eramet
Food waste	3	Delhaize Pandora Carrefour
Recycling	2	Reno de Medici TWMA
Packaging reduction	1	Carrefour
Product ecodesign	1	Egis
Wastewater	1	Reno de Medici
Customer satisfaction	1	Rikshem
Social care of customers	2	Impresa - SIC Norlandia
Gender equality	4	Mundys TWMA PostNL Pandora
Employee training	2	CUF Egis
Employment policy	1	Groupe Bertrand



Interview with Alliander

Learn more about its sustainable strategy.



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