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JULY 2024

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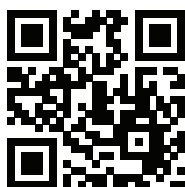
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Daniel Stanton (*Bond panel*),
Prakash Chakravarti (*Loan panel*)

Participants:***Bond panel***

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Eric Nietsch, Sarah Ng,
Gabriel Wilson-Otto, Tze Khai Poh,
Shailesh Venkatraman, Bryan Woon

Loan panel

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FOREWORD

A few years ago, environmental, social and governance (ESG) financing used to be the exception – now it is the norm.

Where the debate used to center on inchoate definitions of what is green or not, the market has now matured with improved ESG disclosures and increased scrutiny around structures.

Simply articulating corporate sustainability targets for 2030 or 2050 does not suffice anymore. The conversation is at a more granular level focusing on additionality, materiality and ambition.

The need for a more standardised approach has grown as taxonomies have proliferated. Hong Kong published its taxonomy for sustainable finance in May 2024, five months after Singapore. As expected, each country's priority is to tie their taxonomy to their country's underlying economy, but interoperability and alignment are key.

Green bonds make up roughly 60% of ESG note issuance in Asia Pacific, social and sustainable bonds somewhere in the mid-teens, with sustainability-linked bonds (SLBs) making up a very small percentage.

SLBs have declined in popularity after investors questioned whether the first wave of issuers had set genuinely ambitious and meaningful targets. However, some lenders argue that the instrument may be at an inflection point. In Europe, the failure of Italian utility Enel to achieve its key performance indicators at the measurement date, the first time this had happened in this kind of instrument, showed that some SLB targets were genuinely ambitious.

Within Asia Pacific, transition finance is an inescapable topic. Japan sold the world's first sovereign climate transition bonds in February and dozens of Japanese corporate issuers have sold similar instruments. This could prove to be an inspiration for other Asian countries that need to fund their climate transitions without hamstringing their economies.

No discussion about ESG financing would be complete without mentioning greeniums. One of the perennial questions is who ultimately benefits from going green? For some market participants with only a few issues under their belt, it may be too early to determine whether greeniums exist. For others, the greenium conversation is overblown and detracts from the wider benefits of reducing environmental and social risks, which tends to go hand in hand with better credit quality.

Looking ahead, ESG financing is moving away from its original green hue. Blue bonds are now being issued for the benefit of marine ecosystems and orange bonds are being touted to support gender equality.

Such variety and innovation is welcome as the region's economies need all the help they can get in attracting capital for ESG initiatives. While the market may not be at a stage where the "ESG" moniker can be dropped altogether because all financing is ESG by default, that is the direction of travel.

Tanya Angerer
Special Report Editor

ROUNDTABLE PARTICIPANTS

**Ian Hay****Credit Guarantee and Investment Facility**

Ian Hay is the head of institutional risk at Credit Guarantee and Investment Facility supervising water, wastewater and contaminated land projects across Africa, the Middle East and Europe. He worked for HSBC corporate banking for 10 years in Europe and the Middle East, followed by nine years as head of sustainability risk in Asia.

Hay joined CGIF in 2021 responsible for leading the safeguards (sustainability) and integrity teams assessing clients issuing bonds guaranteed by CGIF.

**Sarah Ng****ANZ**

As a director in ANZ's debt capital markets team, Sarah Ng advises the bank's clients across South-East Asia and the Middle East on their debt issuances and liability management offerings. She has over a decade of banking experience, having led bond transactions for corporates, financial institutions and sovereigns in multiple markets and asset classes.

Ng is also responsible for championing sustainable capital market solutions for ANZ's clients in Asia. She sits on the cross-industry Orange Bond Steering Committee as ANZ's representative.

**Shailesh Venkatraman****MUFG**

Shailesh Venkatraman is the head of the debt capital markets origination team at MUFG covering South and South-East Asia across loans and bonds. He has 26 years of experience in banking and capital markets in Asia Pacific, and has been with MUFG for the past four years.

He started his banking career with Citigroup, spending 18 years there covering the debt capital markets, loan syndications, leveraged finance and acquisition finance business.

Prior to joining MUFG, Venkatraman was the head of corporate finance for Bank Mandiri, acting as an adviser to the corporate banking team.

**Melissa Cheok****Sustainable Fitch**

Melissa Cheok is an associate director of ESG research at Sustainable Fitch. Based in Singapore, she conducts research on cross-sector thematic ESG issues and analyses their implications on credit risk, with a particular interest in Asia and emerging markets. She regularly engages with institutional investors and corporate clients to advise on sustainable finance trends as well as regulatory developments and how these may impact business operations and financing flows.

Prior to joining Fitch, Cheok was a reporter at Bloomberg focused on emerging market and G-10 foreign exchange and sovereign bonds.

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**Eric Nietsch****Manulife**

Eric Nietsch is head of sustainable investing, Asia at Manulife Investment Management, based in Singapore.

He chairs the Physical Risk and Resilience Working Group of the Asia Investor Group on Climate Change (AIGCC) and is a member of the Investment Leaders Working Group of the Cambridge Institute for Sustainability Leadership (CISL).

Prior to joining Manulife in 2019, Nietsch led the sustainable finance initiatives for Asia Pacific at S&P. Preceding S&P, Nietsch worked on an equity portfolio at Barclays in New York, and on the special situations desk of the boutique investment bank StormHarbour Partners.

**Gabriel Wilson-Otto****Fidelity**

Gabriel Wilson-Otto is the head of sustainable investing strategy at Fidelity International and based in Hong Kong. Wilson-Otto leads the global development of sustainable investment frameworks, policies, proprietary tools, and product offerings.

Wilson-Otto joined Fidelity in 2021 from BNP Paribas Asset Management where he was the global head of sustainability research and had previously held the position of head of stewardship, Asia Pacific. Prior to BNPP AM, he was an executive director in Goldman Sachs' global investment research division and head of GS SUSTAIN for Asia.

**Tze Khai Poh****MAS**

Poh Tze Khai is deputy director, financial products and solutions division, in the financial markets development department at the Monetary Authority of Singapore.

He oversees the development of the fixed income market in Singapore, being part of the financial products and solutions division.

Prior to this appointment, Poh handled various portfolios to support the development of Singapore's financial centre, including the administration of the financial sector grant policy as well as financial sector tax policy, and has also served as MAS's London representative from 2006 to 2009.

**Bryan Woon****Bayfront/Clifford Capital**

Bryan Woon is the head of capital markets structuring and distribution, markets & investor services at Clifford Capital. He is responsible for structuring and distribution activities, where he has led the execution and management of the group's infrastructure asset-backed securities transactions since 2021. Woon was previously part of the corporate strategy team at Clifford Capital, where he was involved in collateral management and investor relations for the inaugural IABS issuance by Bayfront Infrastructure Capital I in July 2018.

Prior to joining Clifford Capital in 2018, he was with Citigroup in London and Singapore, primarily in debt capital markets.



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BOND PANEL

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ROUNDTABLE PARTICIPANTS



Daniel Stanton

IFR Asia (moderator)

Daniel Stanton is the editor of IFR Asia and is based in Singapore. He has been with IFR Asia since 2009, during which time he has held roles including Asia bond editor and Asia equities editor.

IFR Asia has a team of reporters and editors in Tokyo, Hong Kong, Singapore, Mumbai and Melbourne, covering onshore and offshore capital markets transactions across Asia Pacific.

Before joining IFR, Stanton worked for other financial publications in Singapore, Dubai and London.

LOAN PANEL

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ROUNDTABLE PARTICIPANTS



Stella Saris Chow

ANZ

Stella Saris Chow is currently the head of sustainable finance, international for Australia and New Zealand Banking Group, with responsibility across Asia, Europe and the US. Prior to this, she was an energy and infrastructure coverage banker in Asia and has spent 15 years in project finance.

Saris Chow has 20 years' banking experience and has held structured finance and industry coverage roles in Asia, the UK and Australia.

Saris Chow is co-chair of the Asia Pacific Loan Market Association Green and Sustainable Loan Committee, as well as a member of the GFANZ South East Asia Public Policy Working Group and other groups.



Colin Chen

MUFG

Colin Chen has built Mitsubishi UFJ Financial Group's sustainable finance business in the region as the head of ESG finance, APAC. He is also the chair of the OECD's Asia Working Group on Business and Sustainability.

Chen joined MUFG in 2000 and has been involved in structured finance for over 30 years. Prior to his current role, he was MUFG's head of structured finance, Asian investment banking division.

Prior to MUFG, Chen held senior positions at Morgan Grenfell, Canadian Imperial Bank of Commerce and DBS Bank with assignments in London, New York and Singapore.



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ROUNDTABLE PARTICIPANTS



Atul Jhavar

Barclays

Atul Jhavar is co-head of the sustainable banking group, Asia Pacific at Barclays. He also leads the firm's capital markets financing business in South-East Asia, covering debt capital markets, leveraged & acquisition finance and private credit.

Jhavar has 20 years of experience in the Asian capital markets and has spent most of his career in Singapore and Hong Kong, leading numerous financing transactions for sovereigns, banks, and corporates, including green bonds, green project finance, and sustainability-linked debt.



Martijn Hoogerwerf

ING

Martijn Hoogerwerf is head of sustainable finance APAC at ING. Based in Singapore, Hoogerwerf joined ING's sustainable finance team in 2019 with over 10 years of experience in the sustainable finance markets.

Hoogerwerf spent over eight years in structured finance and strategy roles at Fortis/ABN Amro and focused on expanding its wholesale banking activities in Asia. He moved to Hong Kong in 2006 as part of his tenure with Fortis.

He is chairman of ING's APAC sustainable finance forum, a member of ING's sustainable finance management team and sustainable finance quality board.



Prakash Chakravarti

LSEG LPC (moderator)

Prakash Chakravarti is Asia Pacific bureau chief for Loan Pricing Corp based in Singapore and has more than 20 years' experience in Asian capital finance markets. He has written extensively on corporate loans, M&A and leveraged buyout financings, bonds and equity fundraisings.

Prakash joined IFR Asia in 2002. He leads and manages a team of journalists at LSEG LPC in Hong Kong, Singapore, Sydney and Tokyo that covers Asian syndicated loans and leveraged finance.

BOND PANEL



IFR ASIA: LET US START THINGS WITH AN OVERVIEW OF ESG BOND ISSUANCE TRENDS ACROSS ASIA-PACIFIC.

SARAH NG, ANZ: The market has matured to some extent. We're all familiar with the terms 'sustainable financing' and 'ESG' and all these wonderful acronyms by now.

From a granularity perspective, we are moving forward from green being the dominating colour into other social and sustainability formats. We are seeing carbon neutrality bonds, biodiversity bonds, even blue bonds for the benefit of marine ecosystems for example. On the social bond front, another colour that we're hoping to introduce is orange bonds, for gender equality.

Aside from granularity, what's also interesting is the fact that it's much more of a normalised topic of discussion now. ESG is now one of the first things investors ask about in terms of risk factors. And issuers are coming to us on a voluntary basis to look further into sustainable financing.

IFR ASIA: HOW ABOUT YOU SHAILESH, WHAT ARE YOU SEEING?

SHAILESH VENKATRAMAN, MUFG: On volumes, what's interesting is that the global split between the different categories and labels of bonds mirrors closely what we see here in Asia.

Green bonds make up roughly 60%; social and sustainable bonds are anywhere in the mid-teens and a very small percentage are sustainability-linked bonds.

The low volumes on SLBs probably has more to do with the constant ambiguity and subjectiveness around the ambitiousness of targets. Candidly, there are times in our conversations with issuers where we feel we're better off dropping the label, rather than having a label, which in turn,

becomes more of a distraction in the credit conversation with the investors.

Secondly, sometimes the wide flexibility in the use of proceeds of sustainability-linked bonds leaves it open to more questioning around, "Is it really additive to the green or the decarbonisation efforts?"

IFR ASIA: WHAT ARE THE CHALLENGES OF INVESTING IN ESG ACROSS DIFFERENT ASIAN JURISDICTIONS AND WHAT KIND OF TAXONOMIES DO YOU REFER TO?

GABRIEL WILSON-OTTO, FIDELITY: There are three broad use cases where taxonomies, issuer characteristics or instrument characteristics are considered. The first is around fundamental risk assessment, so, "What are we actually learning about the issuers' practices on material ESG risks and opportunities through the issue of an individual instrument or broader disclosure?" The second is where taxonomies really come into it, which is, "How can we classify activities, and how does this meet client demand for exposure to a specific topic or theme?"

Then the third is around regulatory reporting. Both locally, but especially internationally, there's a huge range of increasingly prescriptive reporting and fund labelling requirements that asset managers need to adhere to. This can include a requirement for managers to report aggregated information on the issuers and instruments they own on behalf of clients. So, increasingly, we need the information for those three buckets.

There has been a huge proliferation in taxonomies and there's often a lack of consistency around those taxonomies. For example, there is no global agreement or 'one size fits all' standard of what a 'green' activity is.

What we have found is that, if you speak to the right people – often the owner, the CEO – there is a desire to disclose information.

Ian Hay

Credit Guarantee and Investment Facility

Even when there is agreement, there can be challenges with direct comparability of taxonomy thresholds as the application of a scientific pathway towards net zero emissions will be industry, sector, and country dependent.

If we look back at China as a great example, the first version of the ‘Green Bond Catalogue’ had very significant differences to the definition of ‘green’ within the EU Taxonomy. Encouragingly those differences have now shrunk massively.

Similarly, if we look at some of the newer taxonomies, whether this is the ASEAN or the Singapore Asia taxonomy, they’ve been created with those international standards in mind. I wouldn’t expect one common standard to come out anytime soon, but the steps towards harmonisation are incredibly important for investors.

IFR ASIA: SINGAPORE HAS BEEN AT THE FOREFRONT OF DEVELOPING TAXONOMIES FOR ESG. TZE KAI CAN YOU TALK A LITTLE ABOUT THAT?

TZE KHAI POH, MAS: We rolled out our taxonomy in December with detailed thresholds and criteria for defining green and transition activities.

We named the taxonomy a ‘Singapore-Asia taxonomy’ because we intended for the taxonomy to be used by our financial institutions that serve the region. In that sense, interoperability is something that is very critical to us.

Gabriel mentioned that the newer taxonomies are very much more aligned, but remain fragmented. The Chinese taxonomy and the EU taxonomy have gone through

some interoperability, using the CGT – Common Ground Taxonomy – efforts.

Singapore is keen, or is, part of this CGT movement. We hope that our taxonomy can be part of the CGT, such that there will be more alignment with different taxonomies.

IFR ASIA: MELISSA, WHAT ARE YOU SEEING IN TERMS OF TAXONOMIES ACROSS THE REST OF ASIA?

MELISSA CHEOK, SUSTAINABLE FITCH: I think something that we are seeing that’s quite encouraging, particularly in this part of the world, is the efforts to address coal phase-out – pioneered in the ASEAN taxonomy.

With regards to the Singapore-Asia taxonomy (SAT), I’m not just saying this because the MAS is here, but we truly see it as the best taxonomy available currently to address transition. Looking at the number of sectors covered, and the very clear technical-screening criteria that apply to each of these sectors – it is a good first stepping stone towards addressing transition in a lot of the economies here. Also, the SAT addresses early coal phase-out very well, where it is treated as a separate kind of issue on its own.

It remains to be seen exactly how many will qualify for early coal phase-out funding, but that’s something that we’ll have to see as entities and corporates come up with their own entity-level transition frameworks and their transition strategy overall.

Something that I think we are also observing is the fact that there is a breakaway from just purely following what is in the EU taxonomy. I think that was an overdue development. We used to see a lot of companies just, kind of, copy and paste whatever was in the EU taxonomy, and say, “Oh, we’re aligned” and our analysts would say, “Nope that’s not even mentioned in the EU taxonomy.” So, there is a lot more nuance now, which is encouraging.

IFR ASIA: WHAT’S THE STANDARD OF ESG DISCLOSURE ACROSS ASIAN CORPORATES?

GABRIEL WILSON-OTTO, FIDELITY: Improvement is definitely the name of the game. A lot of that has been driven by good work from regulators at stock exchanges, in terms of setting minimum standards for disclosure and leadership from some local issuers. The challenge is that sometimes issuers have approached disclosure as a compliance exercise rather than a strategic exercise of engaging with the underlying topic. So, what we currently see, looking across the market, is a wide spectrum in quality of disclosure.

IFR ASIA: IAN, YOU’RE GUARANTEEING BOND ISSUES, DEALING WITH A LOT OF FIRST-TIME ISSUERS. WHAT STANDARD DO YOU SEE IN TERMS OF DISCLOSURES THERE?

IAN HAY, CGIF: We see a huge variation from listed companies, to financial institutions and even private companies. It’s probably no surprise that some private companies are very early in their sustainability journey. But what we have found is that, if you speak to the right people – often the owner, the CEO – there is a desire to disclose information. They don’t want to be the laggards in the industry, so they do want to



disclose data. They don't always know how, but they are on that journey and are making steps.

IFR ASIA: HOW DO YOU FOLLOW UP ON HOW BOND ISSUERS HAVE USED THEIR PROCEEDS?

IAN HAY, CGIF: Quite tightly, actually. In the documentation, there will always be a number of conditions. We want to see that corrective action plans are put in place, that they are followed through, and that what has been agreed is actioned. We also undertake site visits.

During the first couple of years, this can be more intensive for some of our issuers – for example, those in construction. If there's hard construction going on, we will visit them potentially every six months. For more vanilla corporate financing deals, we will probably relax that to once-a-year reporting.

If something goes wrong, or there is a regulatory incident, potentially an accident – something where ESG concerns are raised it could well be quarterly, and it would require much more oversight.

IFR ASIA: HOW IS THAT DIFFERENT AT BAYFRONT, BRYAN, BECAUSE YOU ARE BUNDLING THESE ASSET-BACKED SECURITIES AND THE ASSETS ARE ALREADY IDENTIFIED FROM DAY ONE?

BRYAN WOON, BAYFRONT: Bayfront is a unique company as we are both an issuer and an investor. We invest in infrastructure loans, and then we securitise those loans, issuing listed and rated securities to institutional investors, known as infrastructure ABS.

In our first deal, we didn't have any dedicated sustainable tranches, but from the second deal we introduced one to cater to ESG-conscious investors. So we introduced a sustainable tranche in the form of the Class A1-SU notes, while all the other tranches were conventional. The unique part is that, compared to a green bond – a normal green corporate bond where you issue first, and then you take the proceeds, and have to allocate it to eligible assets – in our case the assets are already there from day one because we've pre-selected a pool of sustainable assets.

They are eligible green or social assets in line with International Capital Market Association principles. They're already fully invested from day one, so it's already 100% allocated. Having said that, it doesn't mean that we stop monitoring the projects and allocation of proceeds. We still continue to monitor each and every project within the portfolio, as part of our day-to-day management of all the collateral. That goes through our own internal ESG framework, as well. We also monitor and report the running balances of all the sustainable assets vis-à-vis the running balance of the sustainable tranche.

For us, as an issuer, we have to keep in mind what investors would like in terms of different kinds of taxonomies and frameworks.

Our securities are currently sold in the Reg S market, not in the 144A market, but our investors span across Asia, Europe, and the Middle East, so we built our framework to be aligned with ICMA principles.

Our framework is reviewed annually and comes with a second-party opinion and so we do follow the green and

We are now being approached by some of the Chinese investors, not just the Big Four but regional banks as well, eager to learn how to invest in the asset class.

Sarah Ng
ANZ

social standards very closely. Every time it's updated, we update our framework and see which assets still qualify as green, or not.

IFR ASIA: IT'S A LOT OF WORK UPDATING FRAMEWORKS. MELISSA, WHAT WOULD YOU SAY IS THE GENERAL STANDARD OF BOND FRAMEWORKS ACROSS ASIA?

MELISSA CHEOK, SUSTAINABLE FITCH: I wish I had nicer things to say. I think it really varies. We've analysed the use of proceeds – exactly where those are going and the impact those have. Unfortunately, we've found the greatest variance in the energy-efficiency use of proceeds (UOPs), so that can really vary in terms of quality and the exact end use.

For example, we've seen a lot of oil and gas companies say that they are using their UOPs to increase or improve energy efficiency, but ultimately, your main end product isn't necessarily the greenest product, so how material are these developments?

We recently came across a manufacturer of auto parts that issued a green bond. But their manufacturing process was left exactly the same, there were no indications that they intended to use the financing to implement more sustainable practices across their internal operations. Instead, they said they were issuing a green bond to enable them to manufacture more of the same auto parts, just that they intended to sell these specifically to EV companies. That's not technically a green activity.



In Asia, similar to the trends we see in US and Europe, the greeniums are prevalent but compressed.

Shailesh Venkatraman
MUFG

These are some of the variances you see.

IFR ASIA: TZE KHAI, SINGAPORE HAS NOW ISSUED GREEN BONDS THREE TIMES, SO WHAT WAS BEHIND THIS DECISION?

TZE KHAI POH, MAS: It was certainly not because it was the flavour of the year because it's a long-term commitment for us. We had to go through quite a bit of legislative changes in order to make that happen.

Essentially, before we passed the new legislation, government securities were issued for development purposes, which means we used it to provide a robust, risk-free yield curve for the corporate market to take reference. For green bonds, the proceeds cannot be spent, it has to be invested. One particular criterion is that the life of the project that we fund out of the green bonds must have a shelf life of at least 50 years. So, it's meant to be for significant intergenerational infrastructure – such as coastal protection, longer-termed transport improvements in our rail systems. As it stands, we have a target of S\$35bn (US\$26bn) of issuances by 2030 – so far, we are on track.

IFR ASIA: BRYAN, WHAT WERE THE CONSIDERATIONS FOR BAYFRONT USING THE 'SUSTAINABLE' LABEL ON THE ABS?

BRYAN WOON, BAYFRONT: I will first start by saying it's not with the intention to get a greenium. But we definitely wanted to crowd in as many investors as we could. We decided to be pioneers as there are not that many green securitisations



out there in the world. Since there are plenty of green corporate and green sovereign bonds, we thought, 'Why not introduce it in securitisation?' So, we decided to take the step in 2021 and we've successfully replicated the sustainable tranche ever since.

We always get the question, "Why can't you do a fully sustainable or fully green securitisation?" Unfortunately, the state of the infrastructure debt market, particularly in Asia-Pacific, is not there yet. A lot of these renewable energy projects are concentrated in very few markets, like India, Indonesia, the Philippines and Australia.

The nature of any securitisation transaction is that diversification is critical. So, if we were to exclude all the non-green assets, that just increases the concentration risk within the portfolio.

IFR ASIA: WHEN DOES CGIF DECIDE WHEN TO USE ESG LABELS ON GUARANTEED BONDS?

IAN HAY, CGIF: Throughout the transaction we always make sure that the deal is fully compliant with the Asian Development Bank's safeguards principles, which covers the 'E' and the 'S', and also ADB's integrity principles, which covers a lot of the 'G'. So, it's embedded into our whole decision-making process from start to finish.

IFR ASIA: SO BAYFRONT HAS SAID THEY'RE NOT JUST DOING THIS TO GET A GREENIUM, BUT IS THERE A GREENIUM? TZE KAI, HAVE YOU SEEN THAT IN ISSUES?

TZE KHAI POH, MAS: We've done three issuances so far, so it's a bit early for us to have the kind of data or robust analysis to be able to determine whether there's a greenium or not.

SHAILESH VENKATRAMAN, MUFG: In Asia, similar to the trends we see in US and Europe, the greeniums are prevalent but compressed.

One point we make often to issuers about greeniums is the spread compression in investment-grade paper, which has really been significant in the last 12 to 18 months.

So, when we've had that level of spread compression in investment-grade paper, it's harder for the greeniums to really stand out. But they do exist, sometimes low to mid-single digits – but it's very hard to generalise.

IFR ASIA: I THINK IT'S CLEARER FOR BAYFRONT BECAUSE YOU ISSUED TWO TRANCHES. ONE IS GREEN AND ONE IS NOT SUSTAINABLE, WITH PRETTY MUCH SIMILAR ATTRIBUTES.

BRYAN WOON, BAYFRONT: The greenium is undisputed for everyone to see. To us, the most senior AAA rated tranche made sense to be the sustainable tranche – it's also the thickest. Then we bifurcated this tranche into a sustainable and conventional one. Credit wise, they are pari passu with identical features.

Unlike corporates or sovereigns issuing green bonds, there's always a bit of subjectivity on the size of the greenium based on what's your pricing source for the secondary spreads at the time. In our case, it was all within

one primary market issuance.

Our greenium has ranged between five to seven-and-a-half basis points, depending on the oversubscription. The range of oversubscription for the conventional tranche has been between, on average, like 1.1 to 1.2 times covered. Then, for the sustainable tranche, it's easily two times covered.

IFR ASIA: FROM THE BUYSIDE PERSPECTIVE, ARE YOU LOOKING AT ESG DEALS IN TERMS OF GREENIUMS? IS THAT THE RIGHT WAY TO LOOK AT IT, OR ARE YOU LOOKING AT IT IN SOME OTHER POSITIVE WAY?

ERIC NIETSCHE, MANULIFE: I think there's probably too much of a focus on it.

Everybody always wants to know who gets paid for going green. Is it the companies? Is it investors? How do you manage and approach this trade-off?

The reality is there's not that much of a trade-off. We did a research project with Master's students from Singapore Management University, and we looked at the greenium in different markets, and different ways to measure it. There is a greenium, and it's usually the companies that benefit a little bit, but at the end of the day we're talking about a fixed-income issuance with the same underlying credit quality. That's why I say that the trade-off is not that big.

You could argue that the companies benefit from a greenium a bit, but there is a cost to going through the process of issuing a green bond and setting up the framework. So, when we talk to companies who haven't issued a green bond, they're often very concerned about, "Will I get a greenium?" What we find, after they go through this process, is there are all sorts of other co-benefits that are probably more important than the greenium.

Bayfront mentioned bringing in a different group of investors, maybe a wider investment base. Those investors are probably more concerned with sustainability, which means they're probably more longer-term oriented, maybe more real money, more stable providers of capital.

Companies usually find that all of those reasons make it very worthwhile to go through this process completely separate from the greenium.

From our perspective, we see a lot of benefit also. Bringing in that wider investor base reduces the refinancing risk. It's in the hands of more stable capital, which also means that the volatility is lower. So, the greenium is, kind of, about the return, but the risk and the volatility is, arguably, improved. So, from a risk return profile, there's benefit.

Ultimately, if all of these things are reducing environmental and social risk in a business, and improving the refinancing risk, all of those things are going to support better default risk. That's really what is probably the most important.

IFR ASIA: MELISSA, IS THERE A LINK BETWEEN HIGHER ESG STANDARDS AT ISSUERS AND THEIR CREDIT QUALITY? IF THEY HAVE A GOOD ESG-REPORTING PROCESS AND HIGH STANDARDS, DOES THAT TRANSLATE TO BETTER CREDIT QUALITY?

MELISSA CHEOK, SUSTAINABLE FITCH: Obviously, ESG factors can affect financial risk, which can sort of impact on credit

There is a breakaway from just purely following what is in the EU taxonomy. I think that was an overdue development.

Melissa Cheok
Sustainable Fitch

quality, depending on how big those risk factors are. That's probably why the UN Principles for Responsible Investment encourages companies to take into account ESG risk, but, unfortunately, the answer is not as straightforward.

Naturally, if you're an investment-grade company, your reporting would probably be a lot higher, purely as a function of your size. You have the resources at your disposal. Also, if you're an equity listing, you have to abide by certain ESG disclosures.

But then there are also companies where it has been proven, in some cases, that greater ESG disclosures are not necessarily always financially beneficial for them.

There was a recent report that came out from National University of Singapore about palm oil companies that concluded that reporting on their supply chains, human labour and so on was not necessarily advantageous for them in terms of raising capital.

That can just be because of the perceived financial risks of the downsides of those ESG risks that get posed to them. Hopefully, over time, we'll see a better link when the quality of the reporting goes up, with more data points, more technical screening criteria (TSC) that are set out with regard to the taxonomies and the frameworks that certain companies abide by. But, for now, it doesn't really look to be the case.

IFR ASIA: SARAH, HOW MUCH WORK IS THE BUYSIDE PUTTING IN? HOW IS THE INVESTOR BASE FOR ESG DEVELOPING IN ASIA?



For us, as an issuer, we have to keep in mind what investors would like in terms of different kinds of taxonomies and frameworks.

Bryan Woon

Bayfront / Clifford Capital

SARAH NG, ANZ: What we're seeing now is that investors that would not have previously thought of ESG as a product and asset class are beginning to focus on it, and taking that next step from mere awareness of ESG as an investment risk factor.

As an example Chinese bank GSS issuance, now stands at around US\$130bn from the last two or so years. Around US\$30bn of that is in international currencies.

The funding that has been raised by these Chinese banks will have to be deployed onwards into ESG use of proceeds. There's obviously a fungibility to it as well with these bond proceeds being redeployed back into the system as underlying assets mature. As such, we are seeing a snowball effect from this cumulative growth in the market, which has seen the impetus for Asian ESG bank issuers to become ESG investors as well.

We are now being approached by some of the Chinese investors, not just the Big Four but regional banks as well, eager to learn how to invest in the asset class. We are also seeing the fruits of regulatory drivers as well. For example, Taiwanese banks increasingly have green specific portfolios, with the gentle encouragement of the regulators there.

IFR ASIA: SHAILESH, FROM YOUR EXPERIENCE, WHAT KIND OF ESG QUESTIONS ARE INVESTORS ASKING?

SHAILESH VENKATRAMAN, MUFG: At MUFG we analysed the kinds of questions investors ask generally on roadshows from an ESG perspective and they can be broken in four



most prominent categories. The first one is more around the issuer's strategy, action plans, targets, questions like, "What's the basis on which these targets have been derived? Whether they are science based and what additional initiatives are you as an issuer taking towards the move to carbon neutrality?"

The second one is around the use of proceeds. This has been a very clear ask, from investors, that there be more specificity on the use of proceeds and covering this in general terms is just not enough. If we are talking about eligible assets or eligible investments, a little more granularity is needed.

The third category is ESG reporting. Post-deal reporting is something that many investors have talked about, asking whether we will see the issuer a year from now talking about the impact of their ESG investments, and whether this is verified by any appropriately qualified third parties.

Lastly, the fourth bucket is around the frequency of ESG labelled issuances – "Is this more a one-off issuance, or is there a programme or a plan that every subsequent issuance will carry a label of some sort?" Issuers may have to articulate whether or not their funding plan will follow a particular ESG strategy going forward.

While issuers may choose to keep or drop an ESG label from any issuance, for various different reasons, that doesn't take away from the fact that "every financing discussion today, by definition, will bring up ESG related questions whether or not you attach a label to it." A lot of our conversation on the panel today has been about labelled issuances, but I think ESG goes way beyond that and investors have specific questions on ESG strategy of a company that is independent of the ESG label / tag assigned to any financing.

IFR ASIA: BRYAN, ARE THE QUESTIONS DIFFERENT FOR SECURITISATIONS?

BRYAN WOON, BAYFRONT: Yes, we get two broad sets of questions. One is on a fundamental basis, "How do we look at ESG as an institution and the kind of ESG screening process we do?"

Then, specifically, in terms of the securitisation we receive questions like, "How does it work to have one sustainable tranche within a general securitisation and how does the credit risk passed through to investors?"

"If I invest in a sustainable tranche and if the first asset to default is a sustainable asset, does it mean I'm the first one to absorb the losses?" The answer is, 'no' because it still follows the creditor-loss hierarchy, where the equity tranche, the first loss piece, which is retained by Bayfront, is the first one to absorb losses, regardless if the project is a conventional asset or a sustainable asset.

Then questions also arise about, "What gives this tranche the label that it deserves?" Under ICMA guidance, our bond is labelled a 'secured standard bond', where you just have one tranche financing part of the pool, even though the pool has a mix of both conventional and sustainable assets. So, you are exposed to the credit risks of both conventional and sustainable assets, but how you get confidence that this deserves the label is through

allocation of the use of proceeds.

So, in designing the sustainable tranches we first look at, “What’s the pool of sustainable assets in the entire collateral pool?” and then we incorporate a buffer. Let’s say we put in a 20% or 30% buffer and then we decide, “Okay, that’s going to be the size of the tranche.”

The need for the buffer means that, in case of any events like a prepayment or a default, the investors in this tranche will still have the confidence and assurance that every dollar they put in is invested in a sustainable asset.

IFR ASIA: THE SUSTAINABILITY-LINKED BOND MARKET HAS GONE A BIT QUIET IN ASIA SINCE ABOUT MARCH LAST YEAR, WHEN THE EU’S NEW STANDARDS CAME IN. SARAH ARE ISSUERS RETHINKING THE SLB STRUCTURE?

SARAH NG, ANZ: I think I’d like to argue that we’re getting to a point where all issuances, whether conventional or sustainability-linked, are actually SLBs, in a way, because we have this increased scrutiny from investors on an issuer’s corporate sustainability targets as the base case for investment.

I think we have also naturally moved from SLBs as simply articulating a corporate’s high-level sustainability targets such as net zero 2030/2050, and now addressing goals such as additionality, materiality, ambition.

We are also coming to two key turning points in the market. The first SLBs in the region were issued at the start of 2021 – as such, we are coming to the sustainability target observation dates where the coupon step-ups could be triggered for a lot of these issuances. We’re also getting closer to the 2030 1.5-degree targets that will be closely measured by investors, as well. I think there’s definitely a bit of a, “Let’s take stock and see how we, as a corporate, deal with these challenges,” before they really put themselves up to additional investor scrutiny that comes to linking sustainability targets to their financing.

IFR ASIA: WHAT ABOUT SLBS FROM AN ISSUER’S STANDPOINT?

BRYAN WOON, BAYFRONT: What I’m about to say is more of a personal view given Bayfront has not issued an SLB. But I feel, in a way, it’s a zero-sum game. Fail to meet the KPIs, and I as an issuer lose some money by paying the step-up coupon to you, the investor. I’ve failed to meet my targets, and having positioned to your investment committee that you should invest in this, it also makes it difficult for you to justify this investment and any future investments.

I don’t think a few basis points, whether that’s 15, 20 basis points, is enough to really cover the “losses”, both as an issuer as well as an investor. I think the bigger punishment for an issuer is an investor putting you on your blacklist because you’ve missed your KPIs for one issuance. So, why should they come again in your next issuance?

I think that’s enough of a punishment or disincentive.

IFR ASIA: FROM THE BUYSIDE PERSPECTIVE, HOW DO YOU LOOK AT UOPS? IS THERE ANY WAY YOU PREFER THEM TO BE STRUCTURED?

What we’re looking for, really, is that the issuer has a strong sustainability strategy and that this is feeding into how they’re funding the debt.

Eric Nietsch

Manulife Investment Management

ERIC NIETSCH, MANULIFE: First, actually, let me just take a step back and talk about how we assess labelled debt in general. To us, there’s a certain level of a false distinction between use of proceeds and general corporate purposes that are sustainability-linked.

What we’re looking for, really, is that the issuer has a strong sustainability strategy and that this is feeding into how they’re funding the debt. So, from a use-of-proceeds perspective, we’re not interested if they’re merely funding green projects in order to alleviate the balance sheet to also expand high-emitting activity.

On the SLB side, to Sarah’s point, we’re really looking for materiality and additionality. We’ve certainly seen a number of dodgy structures and targets in the SLB market that we didn’t feel were material or ambitious.

I think it’s a shame that this had damaged credibility and as a result, the market has stopped growing in the way that it used to. Are we at this inflection point or turning point where the market will begin to grow and come back with more ambition and more credibility? Maybe it’s too early to say, but I think we would encourage that.

Frankly, I think, whether it’s use of proceeds or sustainability-linked, we need all the tools that we can get.

IFR ASIA: IN JAPAN, WE’VE HAD TRANSITION BONDS BECOMING PRETTY POPULAR. SHAILESH, DO YOU SEE THERE’S A PLACE FOR TRANSITION BONDS IN THE REST OF ASIA?

SHAILESH VENKATRAMAN, MUFG: Japan has indeed taken



Transition is the name of the game here. It's not necessarily possible, in a lot of sectors, to jump straight to best in class in one generation of enhancement.

Gabriel Wilson-Otto
Fidelity International

the lead in the area of transition finance. The Japanese government sold the first ever country-labelled transition bond. From a Japanese sovereign point of view, issuance is expected to be around ¥20trn over the next decade, which is pretty significant.

There have already been quite a few issuances in this format by the sovereign. Interestingly also, a number of corporates have issued JPY SLBs in the domestic market. Japan Airlines was the first airline company to issue in that format; Kyushu Electric, where the proceeds were going to help fund safety measures for their nuclear power operations – these are just some of the examples of transition finance in the Japanese domestic market.

I think some of the stigma associated with that label elsewhere in Asian needs to fall away, and that will require globally accepted standards building upon existing frameworks such as the Climate Transition Finance Handbook.

If we can show to issuers that adding such a transition finance label will open up pools of liquidity, in a format and in a methodology which is internationally accepted and in compliance with ICMA and other standards that have been set up, I think that will be a game changer. MUFG is committed to playing an active role in developing the transition finance market for issuers in Asia leveraging on our experience from Japan.



IFR ASIA: FROM A BUYSIDE PERSPECTIVE, WHAT ARE YOUR CONSIDERATIONS FOR INVESTING IN TRANSITION FINANCE?

GABRIEL WILSON-OTTO, FIDELITY: We're seeing improvement on the international frameworks to support this. For the first time, we're starting to see product-labelling regimes have an improvers or transition category. Historically, they weren't included in product labels.

For Asia Pacific, it's critical. Transition is the name of the game here. It's not necessarily possible, in a lot of sectors, to jump straight to best in class in one generation of enhancement. You need to think about the pathway to get there.

The complexity for investors is that because transition is context specific, it means you need to do analysis on every single asset in order to get to identify issuers that meet an appropriate standard for transition. For example, an asset in Indonesia could be labelled 'transition', whereas it would not be considered so in Australia or Germany.

When classifying issuers and considering transition, there's also a question as to whether the transition is absolute or relative. For example, do you need to reduce 100 million tonnes of carbon to meet a minimum standard, or is the fact that you're 20% better than the other players in the market already enough to count you as a transitioning asset?

In terms of establishing a framework for transition finance, what is happening in Japan is incredibly encouraging. The creation of a national pathway and plan that investors and issuers can consider progress against helps create arm's-length and common assessment criteria.

Similarly, what we've seen within the Singapore and ASEAN taxonomies, as well as within – apologies in advance for the acronyms – the ESMA (European Securities and Markets Authority) naming conventions in Europe, as well as SDR (Sustainability Disclosure Requirements) in the UK, is starting to give investors cover around creating funds with arm's-length classification that they can reference.

So, I think we'll move from transition funding being a rounding error in the current bond issuance space, to something that's more material, but it does require a higher level of due diligence. It is very dependent on standardisation and frameworks to drive critical mass.

IFR ASIA: LOOKING AT MARKET DEVELOPMENT, TZE KHAI, HOW HAVE MAS'S VARIOUS GREEN INCENTIVES HELPED DEVELOP THE MARKET?

TZE KHAI POH, MAS: At the start, we were looking at the risks that climate change poses to the financial sector. We were focused on bolstering financial-sector resilience to this.

However, as we learned more, we realised that finance is the enabler for the transition to the sustainable investments so, it's not just about the risks. It's also about the opportunity of finance as the enabler. Then we expanded our scope.

At that point we started a couple of things, specifically our grant incentives, such as the Sustainable Bond Grant Scheme, where we subsidise issuers for the costs they incur in external review fees.

We have made enhancements over the years to include

taxonomy costs and transition bonds.

IFR ASIA: WHAT KIND OF ESG INSTRUMENTS WOULD YOU LIKE TO SEE MORE OF?

ERIC NIETSCH, MANULIFE: In many ways, the green bond market has grown beautifully over the last decade, but we always welcome innovative instruments that achieve different things.

Social bonds are one area where we would welcome more issuance. There are often challenges with project size supporting pure-play, social bonds, so these sometimes get combined with green projects in sustainability bonds. However, more standalone social bonds would be useful.

I also think it's really important to grow the transition bond market so that we're not just meeting incremental energy demand with low-carbon options, but that we're actually transitioning the existing stock of corporate assets.

Green bonds have always been able to include water, and waste, and nature more broadly, but there's a huge market shift towards looking at natural systems more holistically. That brings in other interesting instruments that we're seeing with debt-for-nature swaps, which are quickly turning into debt for all sorts of swaps: debt for humanitarian, debt for social. So, I think all of these developments are really useful and we welcome the variety and innovation.

IFR ASIA: WHO SHOULD BE DRIVING THE DEVELOPMENT OF ESG FINANCE? SHOULD IT BE REGULATORS, GOVERNMENTS, FINANCIAL INSTITUTIONS, OR WHOM?

IAN HAY, CGIF: In 2012, I was in the Philippines and we were discussing ESG risk amongst the banks. The Philippine bankers were asked, "who should be doing this?" I was shocked by their answer as the banks said they wanted more regulation. It's the only time I've been in a room with bankers where they've said that.

Regulation is useful as it sets the bar – it makes sure things

We named the taxonomy a 'Singapore-Asia taxonomy' because we intended for the taxonomy to be used by our financial institutions that serve the region.

Tze Khai Poh
Monetary Authority of Singapore

are going in the right direction. But regulation alone is not sufficient. At the other end, personally, I think the investors and the banks really need to play a significant part in this, because they're the ones that are driving the flow of cash and investments. This is really what's going to drive change. ■





LSEG LPC: IS THERE A POSSIBILITY FOR A COMMON TAXONOMY STANDARD FOR ASIA PACIFIC AS A WHOLE, OR IS IT TOO MUCH OF A CHALLENGE?

STELLA SARIS CHOW, ANZ: Taxonomies have been drafted with interoperability and alignment in mind, which helps bankers a lot. But I don't think a common taxonomy regime across Asia Pacific is a requirement.

I do see the need for regionalisation, tied to each countries' underlying economies and goals. Taking Australia as an example, you see a focus on green minerals, metals and mining, which is relevant to the underlying economy. In Asia, transition is more prevalent, which is why transition activities have been defined in the Singapore-Asia and Hong Kong taxonomies.

COLIN CHEN, MUFG: I think we could argue for a global taxonomy, but the book would be so thick because you would have to include every single item which is important for everybody. A mining taxonomy in Singapore would be irrelevant – that's why individual countries have their different emphasis. But interoperability is key.

LSEG LPC: IF YOU WANT TO DRIVE MORE ESG FINANCINGS, AND TAXONOMIES ARE IMPORTANT, IN WHOSE COURT DOES THE BALL LIE?

ATUL JHAVAR, BARCLAYS: For those of us involved in domestic markets, the value of domestic taxonomies is fairly straightforward. In theory, it should help spur domestic bond and loan markets in sectors that are relevant for that country.

The more difficult question is how you scale this up at an international level.

ICMA's green bond standards help but I think there's a role for both regulators and financial institutions. For an international transaction, perhaps it is more likely that a

taxonomy from a more international financial centre, like Singapore or Hong Kong, be used.

At Barclays, we published a transition finance framework to provide transparency to our stakeholders. A few other banks have also started doing this.

While recognising there are going to be differences between various banks' transition frameworks, I think there's a possibility that you start seeing test cases of transactions that are internationally distributed. Perhaps one bank or a group of banks takes the lead in terms of defining it as transition, providing transparency about why we think that's the case, and hopefully get enough critical mass of investors to buy it.

The guiding principles in the ICMA 'Transition Finance Handbook' are helpful to frame the topic but at the end of the day it's not clear exactly which assets are going to be accepted as transition. Investors will have different views about it, so I think you have to get the ball rolling with a few test transactions, in sectors that are hard to abate.

We've started enough discussions with our corporate clients across the region now, where perhaps, initially, the obvious thing to do would have been an SLB. But now we're talking about potentially doing a transition label, based on what we consider to be valid targets. So, hopefully, that will continue in the coming 12 to 24 months.

LSEG LPC: INVESTORS IN THE LOAN MARKET ARE PRIMARILY BANKS, SO SHOULD CENTRAL BANKS BE DRIVING THIS CONVERSATION?

MARTIJN HOOGERWERF, ING: Let me take a step back in terms of green, sustainable and transition taxonomies. In my view, green taxonomies are globally accepted. We still need some adaptation, but certainly, when we structure a green loan, we look at what has been done globally and with other taxonomies.

As a European bank, we will look at the EU taxonomy however it is not the main driver for labelling a particular loan, or the underlying asset, as green. Broadly speaking, the financial markets have accepted what can be classified as green and non-green. There are a few sectors and subsectors where we need better definitions, for example in the case of green minerals.

Looking at transition, what we really need is to localise and regionalise, and perhaps look at it through a sector lens as well.

The example I would like to share is in relation to hybrid vehicles in Indonesia. That is obviously a great transition asset. However, in Norway, that is not considered transitioning because Norway already has 90% EVs. A localised transition taxonomy is fundamental, and I think regulators have a very big role to play there.

LSEG LPC: IN TERMS OF LABELLED TRANSITION FINANCE, THE CONTROVERSIAL TOPIC IS LENDING TO HARD-TO-ABATE SECTORS. WHAT ARE YOUR THOUGHTS ON THAT?

STELLA SARIS CHOW, ANZ: The key is having a credible transition plan.

In some ways, these industries and corporates can have a real impact in decarbonising their businesses. It's not just about having a decarbonisation plan – a credible sustainability plan and setting a net-zero target by 2050 – it's also about having an intermediate plan which is realistic and a plan on how you're going to achieve that.

There are discussions on the need to finance the brown to green, especially in this region. This is where labelled transition financing could play a real role.

Coming back to what ICMA has done with the 'Transition Handbook', there's a lot of discussion in the loan market – and I sit as the co-chair of the Green and Sustainability Loan Committee for the Asia Pacific Loan Market Association – around having a labelled transition loan product and what that would look like. A taskforce has been set up, amongst all the other taskforces, so we have something credible and standardised.

MARTIJN HOOGERWERF, ING: Today's sustainable finance market is worth US\$1.3trn with hard-to-abate sectors making up a tiny fraction. That's an issue. We need to come up with a solution to channel capital towards companies that are hard to abate and help them transition.

COLIN CHEN, MUFG: It's clear, especially in Asia, that the majority of reliable power assets are coal. It's responsible for the majority of the carbon footprint that we have.

If you say, "The moment you have that four-letter word in it, you just cannot touch it," we will never resolve the carbon footprint question. The key is having the standards for the targets that you want to achieve.

China and Japan both have frameworks for transition allowing them to have a number of labelled transition issues. This needs to be resolved in the rest of Asia for there to be more transactions.

LSEG LPC: TALKING ABOUT CHINA, ON THE BOND SIDE WE SEE A LOT OF ISSUANCE IN ESG INSTRUMENTS, BUT

There are discussions on the need to finance the brown to green, especially in this region. This is where labelled transition financing could play a real role.

Stella Saris Chow
ANZ

IN LOANS THERE ISN'T AS MUCH. HOW WOULD YOU EXPLAIN THAT?

ATUL JHAVAR, BARCLAYS: If you look at the overall sustainability-linked loan (SLL) market, it's obviously in different phases of acceptance and development, in different parts of the world.

The US is probably in a state of flux, due to the significant amount of regulatory uncertainty, and some meaningful corporate and investor pushback on ESG in general. In Asia, the trend is very much broad acceptance of sustainability-linked labels, with SLLs being part of that.

I would imagine, across the market, discussions about new loans are increasingly about whether new issuances can be a SLL or not.

We've seen that in our European business, where we're a much larger commercial lender and I think that will increasingly happen in Asia, as well.

The SLL market, to some extent, is less transparent than the bond market. So, I don't think you get the full picture with public data and just looking at broadly syndicated deals.

COLIN CHEN, MUFG: Being a large, commercial lender, a lot of our discussions are predicated on the fact of whether one can do a SLL or not. Then it comes down to pricing.

If you look to the Americas, there's a lot of corporate questions about, "Why are we doing this? Does it make a



A lot of banks, including ING, are now assessing our clients' transition plans. We do this by looking at publicly available data and then engaging our clients on those data points.

Martijn Hoogerwerf
ING

difference?" There's a lot more acceptance in Asia that it does make a difference. How much of a difference it makes, that's debatable.

We see a lot more acceptance and it's not only in terms of the "E" part, but it's also on the "S" part of it. So, we've seen social and sustainable loans increase in interest.

Over the last couple of years, the team has done two very large social loans, both out of India, for social housing. They started off, saying, "We'll just do a normal loan," and there was a lot of discussion on why they should do that particular transaction but the advantage was clear.

MARTIJN HOOGERWERF, ING: In your credit-approval process, how does the credit committee look at whether it's a sustainable finance transaction or not? Is it looked upon favourably or non-favourably?

COLIN CHEN, MUFG: Obviously, anything with the word 'sustainable' is looked on favourably, but the main criteria is always credit. For the broad ESG criteria, the question is "Does that improve the company's risk because it's more sustainable?"

LSEG LPC: HAS ANY BORROWER MET OR NOT MET THE KPIS FOR TRANSACTIONS, WHEREBY THE INCENTIVE OR PENALTY HAS KICKED IN?

STELLA SARIS CHOW, ANZ: I think there's a little bit of a



difference across the markets that we operate in. Certainly when we set the KPIs, it's always with the view of being material and ambitious. We want to see stretched targets and borrowers working towards sustainability outperformance.

KPIs on sustainability-linked loans see quite a lot of customisation, unlike a use-of-proceeds loan, where it's very clear and consistent where that money goes.

That's the beauty of the product. That proceeds can be used for general corporate purposes; however the targets can be tailored to be meaningful to the borrower's sustainability strategy. So, if you're an agricultural company, for example, this could be regarding water and waste or traceability of product. If you're a power-generation company, you can tie targets to reducing emissions and higher proportion of renewable-energy generation.

When I started working on these transactions in Asia five years ago, the market was very positive, and there was less rigour to the structures. We are starting to see a lot more scrutiny around the structures and a more standardised approach. Over time, sustainability targets have been increasingly tied to tighter sectoral pathways, that are science-based targets, or some other sort of decarbonisation plan.

For financial institutions, some are Glasgow Financial Alliance for Net Zero members, however outside of Australia and Japan, many regional banks are reporting Scope 1 and 2 emissions, but not Scope 3. So, part of it is an evolution to start reporting on Scope 3, then be in a position in the future to have targets in place.

There's also an increasing focus on standardisation of documentation. So, a lot of the work that we do at the APLMA Green and Sustainable Loan Committee is around updating the sustainable financing term sheets for SLLs, making sure that, there is some sort of template.

While it's not always a requirement to have pre-issuance third-party review, it is important for the market development to bring standardisation to these transactions as well.

LSEG LPC: DOES THAT BODE WELL FOR SLL ISSUANCE IN ASIA COMPARED TO EUROPE AND THE US, WHERE THE TREND IS THE OTHER WAY AROUND?

STELLA SARIS CHOW, ANZ: I've seen some SLLs in Europe refinance in vanilla format. I think there are a number of contributing factors including potential for greenwashing and scrutiny around corporates and their sustainability strategies. We're at an inflection point, questions such as "What are the targets taking you out to 2030? Can you, with confidence, say that you're going to be meeting the halving of emissions required by that time?" are being asked.

So, I think that has taken a little bit of the steam out of the market in Europe. In Asia the engagement we've had with our customers continues to be very strong, including some borrowers, that are looking at only having sustainable debt as their financing.

MARTIJN HOOGERWERF, ING: That's also what we see. But according to the data, if you look at the sustainability-

linked market in Asia-Pacific, volumes have gone down quite rapidly over the last two to three years. From an ING perspective, we see continued and robust demand.

It does take more time now to structure a credible transaction. If we go into an SLL structuring process as a sustainability coordinator, it can take up to six, nine, 12 months of weekly calls with a client. This encompasses defining credible KPIs along with the alignment with the various pathways and ensuring we are setting ambitious enough targets.

Anecdotally, perhaps, I've never seen a client come to me where I suggest certain targets and they tell me that it's not sufficiently ambitious. So, clients do see this as part of the negotiation process and want to ensure the targets are achievable.

LSEG LPC: 2030 IS A BIG YEAR FOR MANY PARTICIPANTS, AND NEXT YEAR COULD BE A CRUCIAL YEAR, GIVEN THAT LOANS TYPICALLY HAVE A SWEET SPOT OF THREE TO FIVE YEARS. DO YOU EXPECT TO SEE A HUGE BOOM IN ESG FINANCINGS BECAUSE OF THIS?

COLIN CHEN, MUFG: The three- to five-year horizon on most transactions is related to these being corporate transactions rather than being ESG-related. There are a significant number of them coming up and I imagine that pricing will be an issue. You can't escape that, but the difference between an ESG and non-ESG deal is shrinking. The little difference perhaps doesn't overcome the additional cost of doing it. But I would argue, that the additional requirements such as frameworks and ESG are all things that one would do anyway.

We have had some requests for normal loans being turned into SLLs, so this is becoming quite – I wouldn't say "common," but it's coming up, but I have not had any requests of turning it the other way yet.

ATUL JHAVAR, BARCLAYS: I don't think 2025 will be a particular inflection point. Yes, a lot more borrowers have a 2030 target compared to three or five years ago but in the private loan market, there will be some interim targets.

I do think there's a bit of a tension in the market because banks, have set up much more stringent governance mechanisms now, compared to two or years ago, with respect to what is okay for a private loan document.

In the bond market because it's much more standardised this was much easier. But in the loan market, these things were not at all the norm two years ago.

So, I think there's a bit of a tension now where some borrowers are facing pushback from the bankers causing some borrowers to reassess the format.

STELLA SARIS CHOW, ANZ: Not every transaction has to have a label. We do have challenging conversations with our customers who have set targets and are making incremental progress where we may say, "You may want to wait until you can demonstrate the incremental steps to achieve it, rather than come to market too early."

We partner with the borrower to really look at the structure, to make sure when it comes to market, everything has been thought through.

A mining taxonomy in Singapore would be irrelevant — that's why individual countries have their different emphasis. But interoperability is key.

Colin Chen
MUFG

MARTIJN HOOGERWERF, ING: I think the topic of engagement is incredibly important because often we, as financial institutions, want to stay invested in a particular sector or company to "have a seat at the table" and drive the transition of that client. But then the question is, "What does that engagement actually look like?"

I would argue that, when you structure a sustainable finance product, going through a process of six to nine months of weekly calls on sustainability strategy, is a deep-dive engagement.

It doesn't necessarily have to be through a sustainable finance product. A lot of banks, including ING, are now assessing our clients' transition plans. We do this by looking at publicly available data and then engaging our clients on those data points.

We're probably one of the earlier banks to do this. Certainly, investors are also looking at it from this perspective, so that's another way of engaging with our clients on the topic of transition and, hopefully, driving them in the right direction.

LSEG LPC: ONE SIGNIFICANT DIFFERENCE BETWEEN THE BOND AND LOAN MARKET IS THAT THERE ARE SPECIFIC BOND INVESTORS DEDICATED TO INVESTING IN ESG INSTRUMENTS. WILL THE LOAN MARKET REACH THAT?

MARTIJN HOOGERWERF, ING: There are two elements to that. As



With significant pools of private credit, over time I think we will see money flowing into transition assets.

Atul Jhavar
Barclays

a bank, our biggest impact is with our lending portfolio, so we need to decarbonise our loan book over time. That's the real focus that we have. Separately, we have a sustainable finance target of €150bn (US\$163bn) per year by 2027 so that's also driving this discussion. Getting to net zero in our own loan portfolios is key.

STELLA SARIS CHOW, ANZ: It's challenging when you compare bonds to loans, because bonds are public with published frameworks. With borrowers on labelled loans, you can ask them to disclose, however it is not always agreed.

Often, the details remain private. As this product evolves, more transparency would be a good thing.

COLIN CHEN, MUFG: Can I just add that banks are not the only providers of loans? We're seeing an increasing number of insurance companies, pension funds and sovereign wealth funds, participating as lenders. Their criteria are a lot more precise than the banks would be, because our Scope 3 is all the loans that we have on our books. So, that's one of the drivers for us to meet net zero. That class of investors is getting very big in providing sustainable loans.

ATUL JHAVAR, BARCLAYS: One more point to add is private credit, which has grown significantly in the last couple of years. While they may not have the same kind of public targets on financed emissions targets, like banks do, there are a significant number of them that will have a strong axe for ESG-positive or transition assets.

With significant pools of private credit, over time I think we will see money flowing into transition assets.



MARTIJN HOOGERWERF, ING: I have a question. We've seen two press releases on two German issuers who hold their banks accountable for their sustainability credentials. Has anyone seen this in the Asia-Pacific market?

COLIN CHEN, MUFG: Not yet.

ATUL JHAVAR, BARCLAYS: How do they do that? That sounds interesting.

MARTIJN HOOGERWERF, ING: In the bond RFP, one of the credentials of the banks is its ESG commitments and ESG ratings.

STELLA SARIS CHOW, ANZ: At times we see certain customers asking these questions. But increasingly we are being asked by clients, "What do we think of their ESG strategy?" and providing feedback from a bank's perspective as a financier.

In this region sustainability disclosures will be supported by increased disclosure requirements from various regulators and exchanges.

LSEG LPC: IS THERE SOMETHING SIMILAR TO GREENIUMS THAT LENDERS IN THE LOAN MARKET ARE CONCERNED ABOUT? DO BORROWERS TWIST YOUR ARM TOO MUCH TO GET THE TERMS THAT THEY WANT, AND DON'T NECESSARILY DRIVE THE SUSTAINABILITY OUTCOMES?

COLIN CHEN, MUFG: It's a balance, right? I mean, on one hand, you start off saying, "You're not doing this just to get your 10bp discount," or 1bp, or whatever the number is. The discussion also goes into whether they get a penalty if they go the wrong way, or a plus point if they go the right way.

I think that it has come to a point where it does not drive their decision to do the deal. There are other benefits, including signalling and getting the message to the market, and liquidity.

If you are doing an ESG deal and pricing is all the same, but you have a bigger market and it's easier to sell, you've got a bigger, better name and the next year will be easier. So, I see the greenium coming down. There's still a little bit here and there, but it does not push the deal over the line.

STELLA SARIS CHOW, ANZ: Two-way pricing in the Asian markets is harder to agree, compared to where it is standard in most other markets.

The market has discussed a higher discount for sustainability outperformance, however the Asian loan market is extremely competitive so this is unlikely to be agreed.

We talked about high-emitting borrowers at the beginning. A more weighted towards penalty-type structure may be appropriate here and is worth considering.

MARTIJN HOOGERWERF, ING: I think we've made some progress in terms of seeing two-way pricing. If you just go back two or three years ago, it was significantly lesser. ING has sustainable finance guidelines, where we need two-way pricing and if a deal doesn't have this, we need to get special approvals.

ATUL JHAVAR, BARCLAYS: Ultimately, on pricing, in most jurisdictions, banks are not getting capital relief for green assets. So, somebody has to pay the cost. I'm not advocating, necessarily, that capital relief is the right solution. It may not be. Until we have enough data to prove that capital ratios actually benefit from green assets from a risk perspective, it's a hard one to do, right?

I don't think regulators will do it hastily. So, until that time, it's more qualitative factors, like our targets and so on, that push us to do these deals, but, at the end of the day, they are not costless if you're giving it at a discount, because you are not getting any capital relief for it.

LSEG LPC: WE'VE SEEN SOME INSTANCES IN ASIA PACIFIC WHERE FINANCIAL SPONSORS HAVE BORROWED AN ESG LOAN TO FUND A BUYOUT. HOW DIFFICULT IS IT TO STRUCTURE SOMETHING LIKE THAT?

MARTIJN HOOGERWERF, ING: We've done a few of these transactions and timing is crucial. What we've seen, typically, is what we call 'sleeping mechanisms'. Regardless of whether it is event-driven financing, sometimes timelines are misaligned. For example, if a client wants to close a transaction but an updated sustainability report is not yet out.

We will wait and then we give the client time, whether that be six to nine months, to then convert the loan documentation and implement those targets and KPIs. The key, from my point of view, is the commitment of the client. You don't just want to insert sleeping language and give the borrower a free option.

ATUL JHAVAR, BARCLAYS: Yeah, it's quite a challenging situation because, in addition to the timeline issues, very often it's hard for the sponsor to commit to what they can do with the company. They haven't bought it yet, so, there's a long way to go. Potentially the sponsors want to change management or rework strategy. How do you predetermine ambitious KPIs for a situation like that?

We are seeing a lot more interest from financial sponsors for coming up with structures that potentially work, because they are keen to start incorporating SLL features. So, I think it's very much work in progress, and I think banks, including ourselves, are taking it case by case at this point.

COLIN CHEN, MUFG: My view is that you've already got so many hundred million moving parts on an event-driven transaction. And you're talking about something which you do not own yet, so why complicate issues when what will get you across the line is pricing?

If pricing is not much different, then do a conventional loan, and then refinance it later when things are clearer to get across the line quicker. Again, it's on a case-by-case basis, but it's a lot of complication for little yield.

LSEG LPC: THERE WAS A DEAL WHICH BECAME THE FIRST PUBLICLY KNOWN FINANCING BY A DATA CENTRE COMPANY TO INCORPORATE A GENDER-PAY EQUITY TARGET. ALSO, IT WAS THE FIRST SLL TO INCLUDE CARBON USAGE EFFECTIVENESS. WHAT ARE YOUR THOUGHTS ON THAT?

Over time, sustainability targets have been increasingly tied to tighter sectoral pathways, that are science-based targets, or some other sort of decarbonisation plan.

Stella Saris Chow
ANZ

MARTIJN HOOGERWERF, ING: ING structured the very first sustainability-linked loan in 2017 for Royal Philips. Since then, we have structured more than a 1,000 of them. We started keeping count of the KPIs and have used 1,500 different KPIs across the 1,000 SLLs that we've done.

Having said that, companies do need to think very carefully about what addresses the most material sustainability topics for them and how to define a relevant KPI that they can track and improve on and do this on a yearly basis. Certainly, the company you refer to is very reputable and takes sustainability incredibly seriously and has put a lot of work and thought into this new KPI.

STELLA SARIS CHOW, ANZ: But if you think about it from the KPI itself, we see a lot of financial institutions or funds having gender-mix KPIs. It might be 30% of women in leadership, broadly defined. For this deal, the KPI was quite specific and impactful, so, from a materiality and ambition standpoint, it's great.

Then the question is, "Can you apply this broader, and what are the mechanisms to track that?" But I'm really encouraged to see specific KPIs that are actually focused on compensation, rather than more general gender diversity KPIs that we see.

LSEG LPC: DATA CENTRES ARE EMERGING AS A VERY BIG SECTOR RAISING LOANS. ARE THERE ANY OTHER SECTORS THAT YOU THINK ARE GOING TO DRIVE ESG FINANCING FLOW, GOING FORWARD?

STELLA SARIS CHOW, ANZ: I think the obvious one is green transportation, which we've seen a lot of in Asia, US and Europe. That will continue to be a large area of use-of-proceeds green loans in the region. Along with the larger build-out of renewable energy assets in the region, but again that use-of-proceeds green loan is going to be much more interesting and straightforward.

I think what we've seen in the US is a lot of green project financings done in the renewable energy markets and in Taiwan. It is good to see labelling of those transactions.

MARTIJN HOOGERWERF, ING: We have done the most transactions in the financial institutions and the telecom, media and technology space. And I hope to see more action in the mining space and hard to abate sectors.

COLIN CHEN, MUFG: I hope transition finance will be the one that will come up this year. ■