Tradeweb

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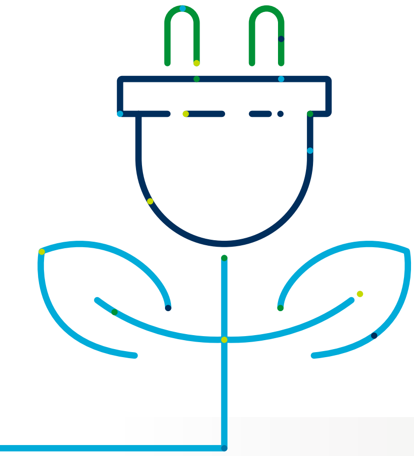
A Conversation: EU Sustainable Issuance & Secondary Trading Trends



Simon Maisey
Managing Director and
Global Head of Corporate
Development at Tradeweb

In conversation with:

Justine Leigh-Bell
Deputy Chief Executive Director
of market development at the
Climate Bonds Initiative (CBI).

Discussion Highlights

Simon Maisey

At the start of the pandemic, many people expected the focus would shift away from green and social issues. In fact, we have seen the opposite. Why do you think that is?

Justine Leigh-Bell

It is quite exceptional. At the start of 2020, COVID hit and took the world by storm. The attention rightfully shifted towards the immediate, which was saving lives and getting some control. It wasn't very clear in the first couple of months just how climate change and other environmental and social issues would be affected – and how investors were going to react.

It didn't take long for the market to connect the dots and recognise that COVID is a consequence of our impact on the environment. If anything, it has put it into turbo charge, with the issuance of green bonds.

Another effect we have seen is the diversity of bond labels. It has not just been green bonds, but also social bonds and COVID or "pandemic bonds". China issued labelled debt products designed to alleviate the impact of COVID. Since the early issuances of these different products, they have raised around $300bn, outside of the $1trn green bond market.

Simon Maisey

Turning to regulation, the Sustainable Finance Disclosure Regulation (SFDR) has just been enacted. Do you think there is a lot more regulation coming?

Justine Leigh-Bell

It's quite amazing what's come online in such a short period of time. Keep in mind the European Commission embarked on its sustainable action plan back in 2017, compare that to where we are now with a fleshed-out taxonomy, which is going into regulation, and the SFDR, which ensures that we get appropriate reporting from the investor side.

It is going to be tricky for some investors that are not advanced on this. They are learning a language and working out how to apply the taxonomy to understand what their portfolios hold. There is a lot of learning required here. We are getting a lot of questions and requests for advice on how to apply the taxonomy and the SFDR.

What more can we expect? That is the unknown. What we already have is a great advancement, but it is going to be challenging to implement.

Simon Maisey **The US is re-joining the Paris Climate Accord under the Biden administration and there has been a recent regulatory dialogue between the EU and the US. Do you see regulations converging?**

Justine Leigh-Bell There is a harmonisation exercise going on between the EU and China, which have come together to work on an alignment of their taxonomies. With the commitments that these regions have made, it is important there is a common language at some level.

It's fantastic that the US has stepped back into the climate policy arena – but they've got some serious catching up to do. To achieve a taxonomy and regulation in a four-year period, not knowing what will happen after that or the next administration, will be difficult to achieve. But it is encouraging.

If the EU, China and the US come together in any way, that will have a serious effect on capital flows around the world.

Simon Maisey **What is the CBI's main area of focus at the moment?**

Justine Leigh-Bell The past 10 years have been about market education, and we still have a long way to go on that, but we are starting to understand the urgency and opportunity of sustainable finance.

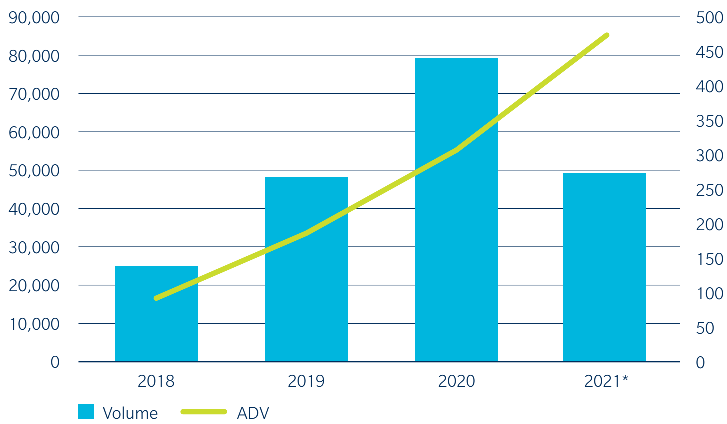
Transition will be a big theme for the CBI this year and going into the next decade. This includes resilience. How do we move away from depending on fossil fuels? How do we build our infrastructure better to support society in the long run? COVID taught us that we are miles behind on resilience – that's economic, social and environmental resilience. Addressing those together will make a more resilient economy.

Simon Maisey **We're seeing a premium emerge for green bonds as demand has increased. How do you quantify the cost to investors in financial, as well as environmental, terms?**

Justine Leigh-Bell For the longest time we were running very much on anecdotal data from engagement with issuers. Time and time again, over-subscription was becoming the norm. Now, the data is starting to become a little clearer. We publish a quarterly pricing report that shows that with the level of demand and the lack of supply, naturally, this is going to happen.

What COVID showed us is that investors view these bonds as high-quality products. They are buy-and-hold markets – they don't want to let their green bonds go.

Tradeweb CBI Screened Green Bond Trading Volume (mm)



*Data through May 2021

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