FROM AMBITION
TO ACTION
YOUR CLIMATE JOURNEY STARTS HERE
south pole

Nordic Platform for Mobilising Climate Finance

Debt Opportunities

23 Oct 2020

Nordic Council of Ministers

gaia

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Welcome to our webinar

- **Default audio setting:** mute on joining
- **Questions** via the ***Question box*** are welcome at any time
  - Topic-related questions for the discussion: Q&A at the end
- Some of us might be broadcasting from **our homes**. Please bear with us in case of sound and/ or technical issues
- The webinar will be **recorded**
- **11:30 AM**
- **Landing page**

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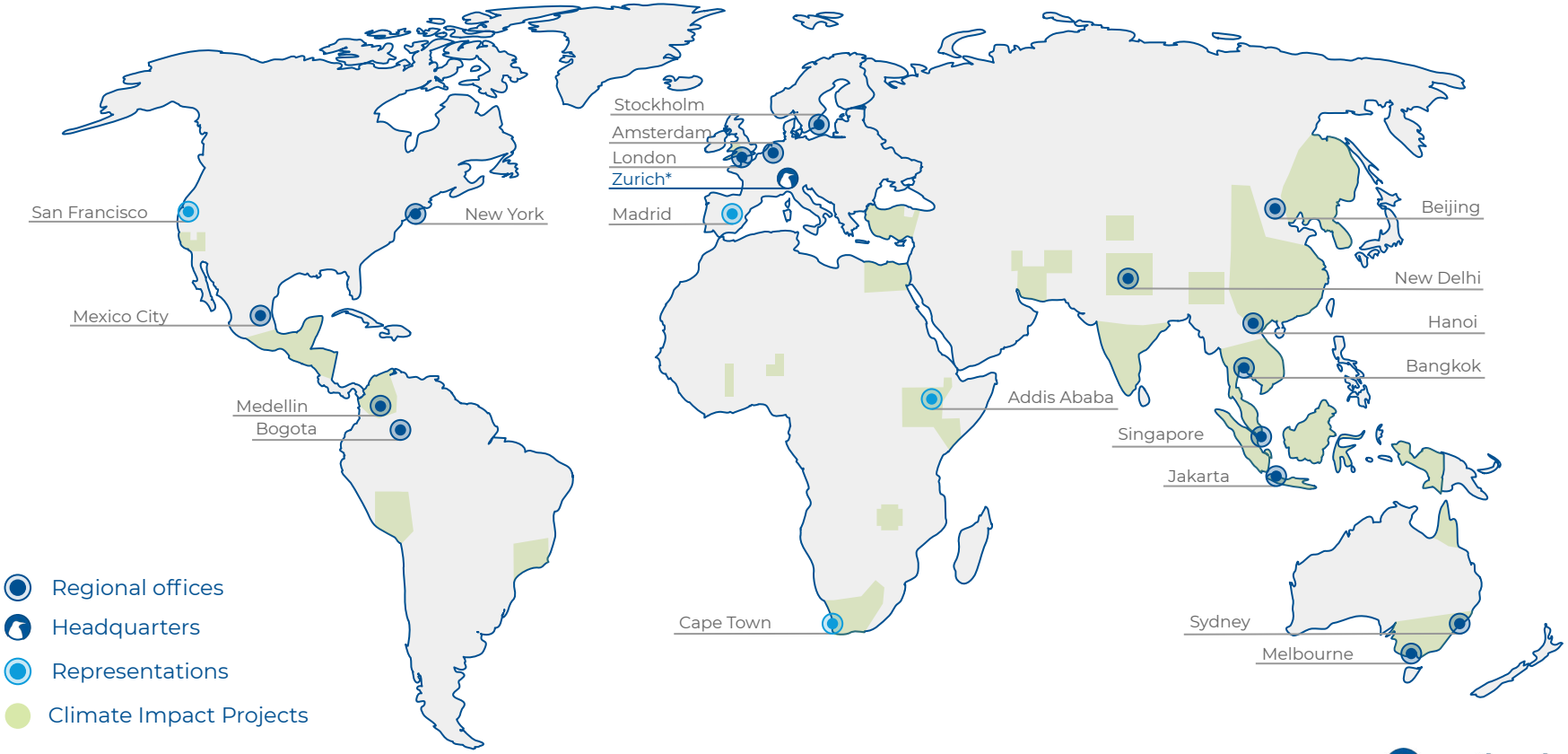
Our global reach



Sustainable Finance at South Pole

TCFD advisory	SDG impact analysis for financial products	Supporting net zero commitments
• **TCFD** first steps and gap analysis • **Physical and Transition risk** identification and opportunity assessment, including scenario analysis • **CDP questionnaire, climate stress test** and **Taxonomy** support	• **Asset management** funds • **Green and sustainability bond and loan** impact and verification • **Transition bond and loan** impact and verification	• **Scope 3 carbon footprinting** for lending and investments • Investment and lending **Paris alignment** assessments and decarbonisation pathways • **Climate neutrality** for financial services (scope 3 carbon analysis)

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OVER
2 000
REFERENCE CASES

50+
PROFESSIONALS

200
CLIENTS YEARLY

62
NPS

WELL-BEING
4/5

1 000+
CLIENTS IN MORE THAN **60** COUNTRIES

8 OFFICES GLOBALLY

OVER **25** YEARS' TRACK RECORD

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We provide a 360° approach to sustainability

Climate accountability and leadership

Communications and stakeholder relations

Risks and resilience

Foresight

Strategic integration and capability development

Governance and legislation

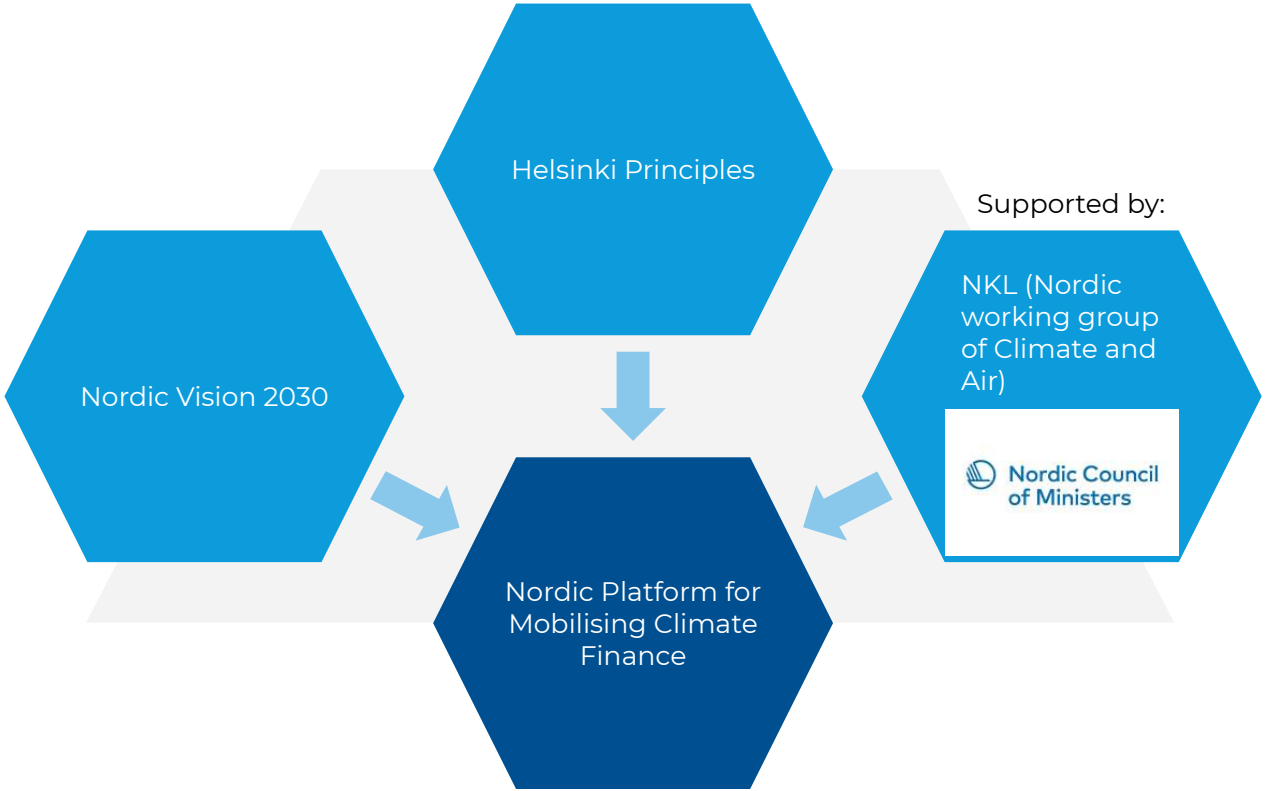
Business opportunities and transformations

Innovations

Materiality assessment and reporting

Financial analysis

The Platform (1)



The Platform (2)

NORDIC DEVELOPMENT FUND
Swedfund
klp
IFU
NEFCO
Nordea
Norfund
NIB
VARMA
European Commission
PRI Principles for Responsible Investment
alecta
finnfund

Hosts

Ingmar Schuurmans
Managing Consultant
South Pole

Mikko Halonen
Leading Consultant
Gaia

Speakers

Esko Kivisaari
Deputy Managing Director
Finance Finland

Axel Fougner
Press Officer
European Commission

Luca De Lorenzo
Director, Head of Sustainability and Mandate
NIB

Elina Kamppi
Head of Sustainability
Finance Finland

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South Pole & Gaia Webinar

Esko Kivisaari

October 23, 2020

FINANCE FINLAND

My slide from 20 years ago: 'It is not V@r that kills, it is TailV@r that kills'

More extreme values in a warmer climate

Fig. 2 Summer temperatures in central England

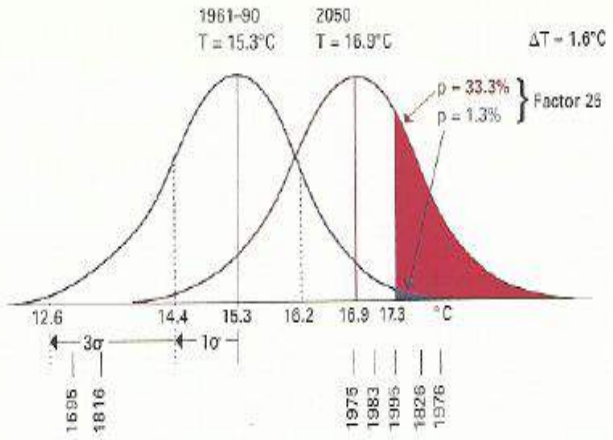
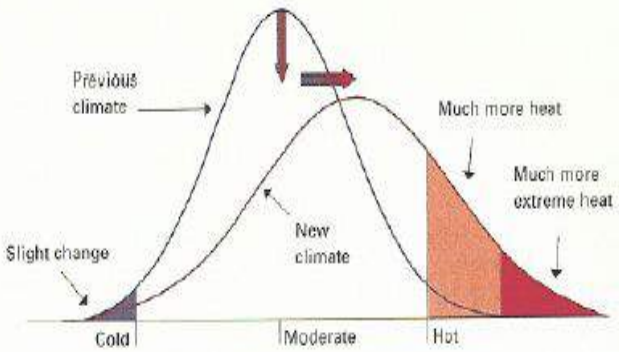


Fig. 3 Increase in mean and distribution



FINANCE FINLAND

My slide from 20 years ago: 'The role of insurance industry'

- identification of risks (at least as long as they are not widely known)
- increasing risk awareness among those most concerned
- analysis of risks: where and how losses happen, what influences their probability and how they can qualitatively or even quantitatively be described
- risk prevention
- carrying of risks

FINANCE FINLAND

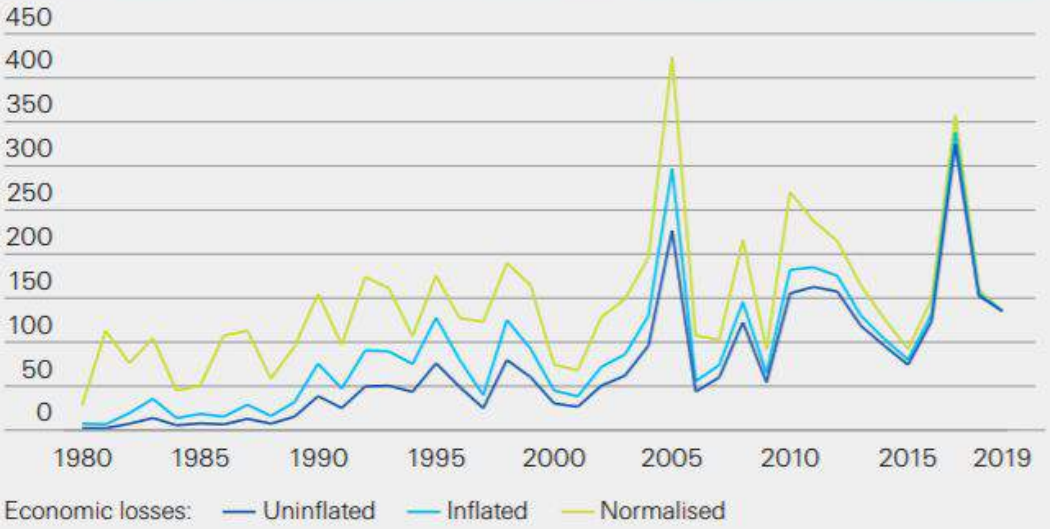
My slide from 20 years ago: 'Insurance of new forms of energy production'

- insurance cover is nowadays essential in all enterprises not only for the owner but also for all other stakeholders
- this is especially true with new and partially untested technological applications
- challenge to insurance industry: to provide cover for new technologies, i.e. lack of cover should not hinder the transition to new forms of energy

FINANCE FINLAND

Is the world becoming uninsurable?

Economic losses from extreme weather events 1980–2019: uninflated, inflated (2019 prices) and normalised (USD billion)



Source: Swiss Re Institute

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From PR to Boardroom, from insurance to (also) investment, from ethics to responsibility

- What is different today:
  - Sustainable development is a key strategic issue
  - While insurance aspect still crucial the greatest attention goes to financing and investing
  - Things started from an ethical angle (where there are different mutually incompatible theories) to responsibility where you can agree on the content

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Targeting 1.5°C

Finnish financial sector ups its climate action – major steps forward in one year

FFI members take climate change into account:

	2018	2019
IN INVESTMENTS	87 %	95 %
IN BUSINESS OPERATIONS lending, funds, payments, insurance	78 %	90 %

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Source: FFI member survey 2020, response rate about 70%

Climate change awareness has been included in:

	2018	2019
BUSINESS STRATEGY	65%	85%
OWN RISK MANAGEMENT	61%	80%
BOARD-LEVEL DISCUSSION	70%	80%
CONCRETE CLIMATE GOALS SET	48%	70%

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Source: FFI member survey 2020, response rate about 70%

Taxonomy should be the basis for a EU Green Bond Standard

- EU Green Bond Standard should be admitted to those green bonds where the use of proceeds are aligned with the taxonomy at the time of issuance.
- To ensure predictability in financing sustainable infrastructure projects subsequent changes to the taxonomy etc. should not change the status of EU Green Bonds already in the market (fulfilling requirements when emitted).

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Finance Finland proposes legislative change to the Ministry of the Environment

- Energy certificates of detached and semi-detached houses are currently not electronically available to banks.
  - This slows down green development in mortgage lending.
  - Better availability of certificates would encourage energy-efficient construction and renovation of apartments, which in turn would help curb climate change.
- Finance Finland has proposed to the Ministry of the Environment and Climate Change that mortgage lenders should have access to energy certificates for purposes of the lending process.
  - Enabling such access requires a legislative amendment.
  - Energy certificates are a standardised source of information on a building's energy performance. Without this information, green mortgages cannot be granted.
  - According to a recent study, energy-efficient housing thus involves a smaller risk of a customer's insolvency.

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Finnish financial companies' commitments in 2019

Collective Commitment to Climate Action, Net Zero Asset Owner Alliance, Getting to Zero Coalition (shipping), Portfolio Decarbonization Coalition, Helsingin ilmastokumppanit, 2030 Agenda and the UN Sustainable Development Goals, OECD Guidelines for MultinationalEnterprises, Paris Pledge for Action, The Responsible Ship Recycling Standards, The Poseidon principles, UN Framework Convention on Climate Change, The Kyoto Protocol, Rio Declaration on Environment and Development, The Montreal Protocol on Substances that Deplete the Ozone Layer, Ramsar Convention, Sustainable Investment Forum, Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES),
UN Convention on Biological Diversity and the related Nagoya Protocol and Cartagena Protocol, FAIRR A Coller Initiative, ICGN, GRESB, Investor Agenda Statement to Governments on
Climate Change, PRI'scollaborative engagement with oil and gas sector, Investor statement on biodiversity impact metrics, Collaborative engagement with Vale, Fiduciary Duty in the 21st Century, The Green Building Council of Finland.

FINANCE FINLAND

Financial sector – better finances for everyone

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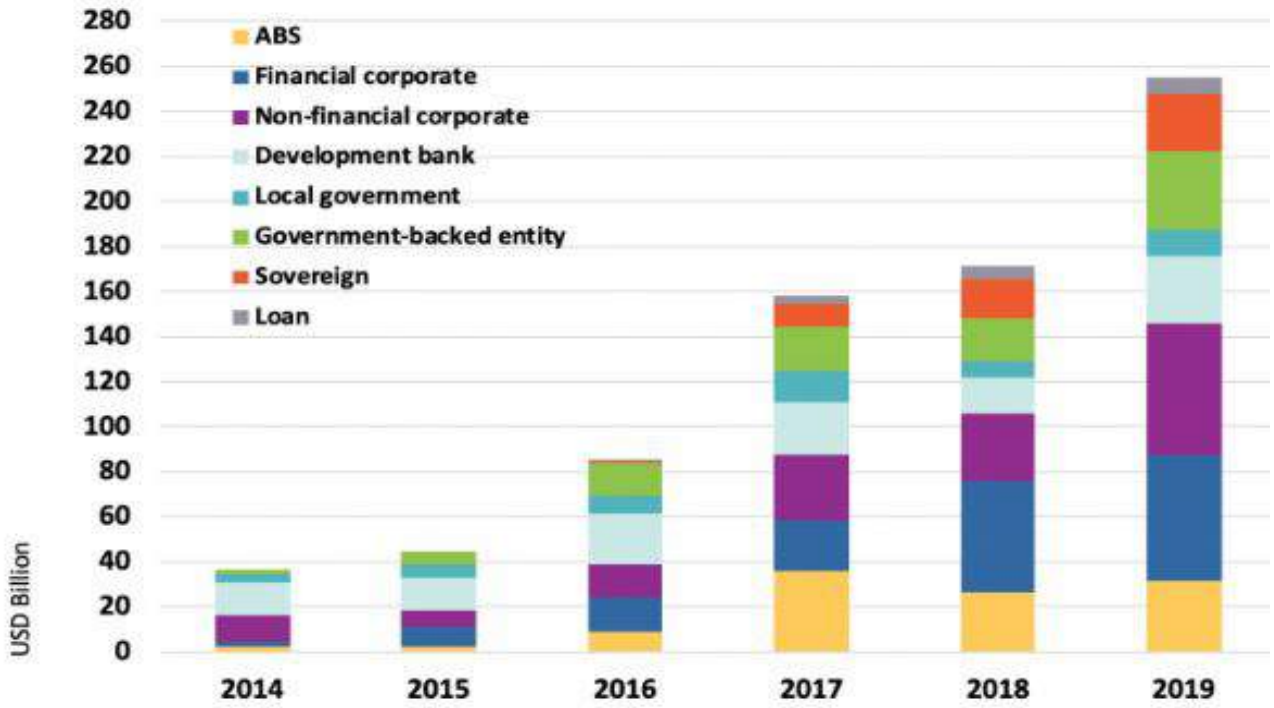
1. Background on green bonds

About green bonds	• Debt instrument with green use of proceeds • Legally no different from regular bonds • Enlarges issuer investor base, enables corporate transitions (any company can issue). • Strong investor appetite for green, unprecedented transparency
Existing rules	• **Green Bond Principles** (description of use of proceeds, clear process for selection of projects, explain how funds are tracked/allocated, reporting on proceeds) • Climate Bond Initiative's **Taxonomy** • Guidelines, standards and regulations outside of EU
Market development	• First bonds issued in 2007 by the EIB, 2008 by the World Bank. • Europe is largest green bond market. • Market historically led by public sector and banks. • Market is characterized by strong focus on climate change mitigation and the energy and real estate industries .

Graph 1: Green bonds per type of issuer



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Confidential

Europe has become a world leader in the issuance of green bonds.

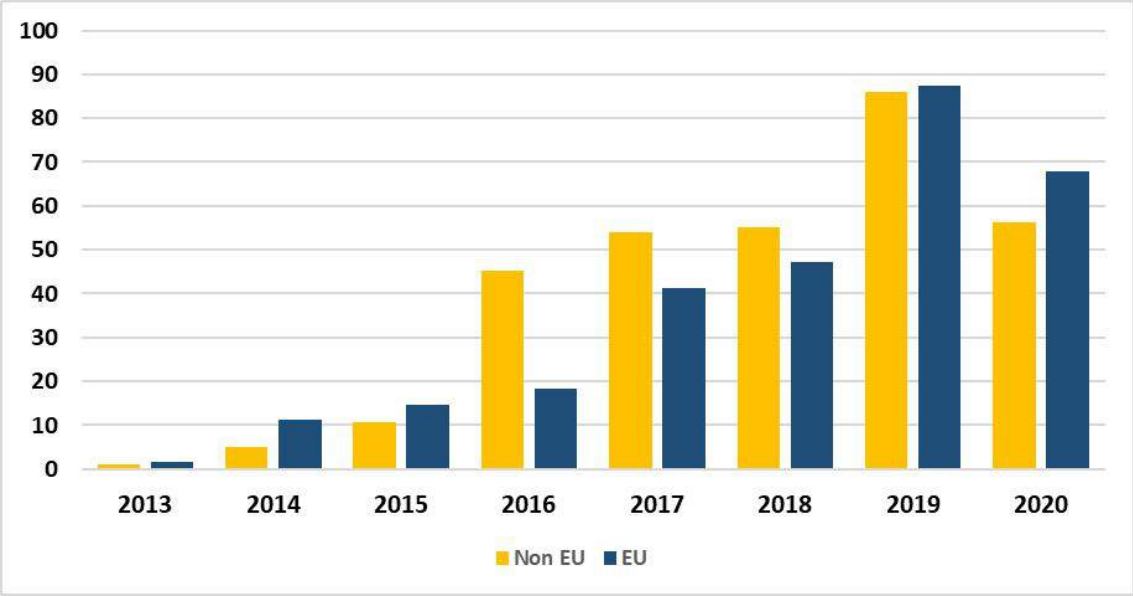

Figure 1 Green bond issuance by European and non-European issuers (€ bn).
Source: Dealogic DCM. Last observation: 14 September 2020.

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1. EU Sustainable Finance agenda

EU Sustainable Finance Agenda

- **High Level Expert Group on Sustainable Finance (2016-2017)**
  Recommendation to the Commission to develop and implement official European sustainability standards and labels, starting with green bonds

- **Commission Action Plan on Financing Sustainable Growth (March 2018)**:
  Technical Expert Group on SF tasked to prepare report on an EU green bond standard, building on current best practices

- **Technical Expert Group on Sustainable Finance (2018-2020)**:
  EU GBS report June 2019 outlining proposed content of EU GBS
  Usability Guide March 2020

- **EU Green Deal**
  Roadmap for making EU's economy sustainable, net zero emissions by 2050

- **Renewed Sustainable Finance Strategy**
  Roadmap to increase private investment in sustainable activities to support the European Green Deal and to manage and integrate climate and environmental risks into our financial system

2018 Action plan on financing sustainable growth

Actions stretch across the whole investment chain

1	**Taxonomy**	Develop an EU classification system for environmentally sustainable economic activities
2	**Standards and labels**	Develop EU standards (such as EU Green Bond Standard) and labels for sustainable financial products (via Ecolabel) to protect integrity and trust of sustainable finance market
3	**Fostering investment in sustainable projects**	Exploring measures to improve the efficiency and impact of instruments aiming at investment support. Mapping on investment gaps and financing.
4	**Incorporating sustainability in financial advice**	Amend MiFID II and IDD delegated acts to ensure that sustainability preferences are taken into account in the suitability assessment.
5	**Developing sustainability benchmarks**	Develop climate benchmarks and ESG disclosures for benchmarks
6	**Sustainability in research and ratings**	Explore how credit rating agencies could more explicitly integrate sustainability in to their assessments. Study on sustainability ratings and research and exploring possible measures to encourage their uptake.
7	**Disclosures by financial market participants**	Enhance transparency to end-investors on how financial market participants consider sustainability
8	**Sustainability in prudential requirements**	Explore the feasibility of reflecting sustainability in prudential rules (where justified from a risk perspective)
9	**Strengthening sustainability disclosures and improving accounting**	Enhance climate and sustainability-related information provided by corporations
10	**Fostering sustainable corporate governance**	Collect evidence of undue short-term pressures from capital markets on corporations and consider steps for promoting corporate governance that is more conducive to sustainable investments.

EU Taxonomy

Objective

Provide a **classification tool** to help investors and companies to make informed investment decisions on environmentally sustainable activities for the purpose of determining the degree of sustainability of an investment

We need a taxonomy that is **robust, science-based, and ambitious**, in line with our shared environmental objectives, including going towards climate neutrality in line with the Paris agreement

What is it?

A list of **economic activities** that are environmentally sustainable.
To be included in the Taxonomy, an economic activity must meet the following conditions:

Substantially Contribute to one objective + Do not significantly harm any of the other 5 obj. + Minimum social* safeguards

+ Technical Screening Criteria

6 environmental objectives

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use & protection of water
4. Circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems

* Alignment with OECD Guidelines for MNE, UN Guiding Principles on Business and Human Rights, ILO core labour conventions, International Bill of Human Rights.

European Commission

2. Market barriers for green bonds – current situation

Strong investor interest	• But costly for them to identify genuine green bonds • No official green bond standard • No formalised accreditation and supervision of verifiers
Insufficient green bond issuance	• Lack of sustainable assets • No common definition of green – potential reputation risk • Additional costs of issuing green bonds • But also benefits: reputational gain, potential "greemium"?
Result	• **Green bond market is not growing as fast as it could**

3. Key elements of the TEG's EU Green Bond Standard

Use of proceeds on green capital expenditure in line with EU taxonomy	• Alignment with the environmental objectives and technical screening criteria as defined in the **EU taxonomy** • Physical or financial assets, tangible or intangible: any capital expenditure and selected operating expenditure such as maintenance costs related to green assets that either increase the lifetime or the value of the assets, as well as R&D costs, and relevant public investments and public subsidies for sovereign and sub-sovereigns. • Green assets qualify without a lookback period, and eligible green operating expenditure shall qualify with a maximum of three years lookback • The use of proceeds is specified either in the prospectus or in the final terms of the bond
Publication of a Green Bond Framework	• Document explaining issuer's alignment with the EU taxonomy and environmental objectives, green bond strategy, project selection, methodologies and processes for allocation and impact reporting of the Green bond or Green Bond program
Mandatory allocation report and impact report	• Allocation report needs to be published annually until full allocation of the bond proceeds, and Impact report at least once at the full allocation, and both reports thereafter, in case of any material change.
Mandatory Verification by external reviewer	• Issuers shall appoint an external verifier that needs to be accredited • Verification applies (i) to the Green Bond Framework and (ii) to the Allocation Reporting

4. Responses to market barriers for green bond issuers

Barriers to green bond market development	How the proposed draft EU GBS seeks to address the barriers (from 2019 report of Technical Expert Group on Sustainable Finance)
Lack of sustainable projects and assets	• Clarify and potentially expand the universe of eligible green projects with the proposed EU taxonomy • Facilitate and complement the development of green finance by direct policy measures and incentives
Issuers concerns with reputational risks and green definitions	**Clarifying definitions, reporting requirements and roles:** • Definition of green with EU Taxonomy and Environmental Objectives • Expanded and standardized Green Bond Framework and mandatory allocation and impact reporting + mandatory verification • Accreditation of verifiers
Absence of clear economic incentives/additional costs of issuing green bonds	**Demand and supply side measures and incentives to stimulate market growth:** • Disclosures of EU GBS holdings by institutional investors • Endorsement of the EU-GBS by issuers, investors and potentially Central banks • Potential subsidy to offset the additional cost of external verification
Complex and potentially costly external review procedures	• Standardised verification process focusing on the essential components • A grant-scheme to offset the (initial) additional cost of external verification

Examples of EU GBS usage (1/2)

Climate change mitigation: sectors that are already low carbon	▪ **Renewable energy production** in Europe: solar, wind, hydro ▪ **Low-carbon transportation**: electric cars
"Greening of" sectors by tightening the criteria that ensure substantial contribution to climate change mitigation, without significantly harming the other objectives and with gradual decline in the thresholds to net zero emissions by 2050	▪ **Construction and real estate**: Energy performance level of B or better, or 30 % improvement in energy efficiency of old buildings, (subject to revisions). ▪ **Steel company** upgrading its production facility, provided the upgrade leads to steel production **in line with the thresholds** for **climate change mitigation** as proposed in the EU Taxonomy.

European Commission

Examples of EU GBS usage (1/2)

Activities that enable climate change mitigation	Development and/or use of **ICT solutions** that facilitate data collection and modelling for decision-making that enables GHG emission reductions.
Climate change mitigation, no thresholds (yet)	**Aviation** company financing **R&D** into **electric planes**, provided both issuer and verifier believe the electric planes would substantially contribute to climate change mitigation, do no significant harm to the other environmental objectives, and comply with minimum social safeguards.
Circular economy, no thresholds (yet)	**Consumer company** wishing to upgrade its production to make their products more **recyclable**, could issue a **EU GBS**, provided both issuer and verifier believe the investments substantially contribute to the circular economy, according to the fundamentals presented in the taxonomy regulation, do no significant harm to the other environmental objectives, and comply with minimum social safeguards.

European Commission

"We are world leaders in green finance and the largest issuer of green bonds worldwide.

We are leading the way in developing a reliable EU Green Bond Standard.

And I can today announce that we will set a target of 30% of NextGenerationEU's 750 billion euro to be raised through green bonds."

- Ursula von der Leyen,
President of the European Commission,
16 September 2020

What we have asked you

Is there a role for Nordic governments to facilitate the EU Green Bond Standard for investors?

“Yes, there is a role”

“No, there are already generally accepted standards developed.”

“Yes, the Nordic governments could hare internationally their extensive experiences on green bonds and hereby promote the EU GBS”

“Yes, it would be useful if governments that issue green bonds would use the EU GBS (if possible).”

➢ **Task: what role according to you?** Answer through the question box

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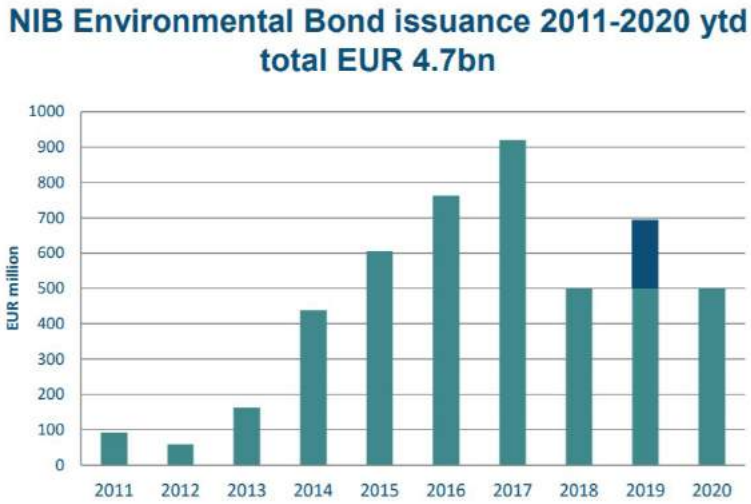
Nordic Investment Bank

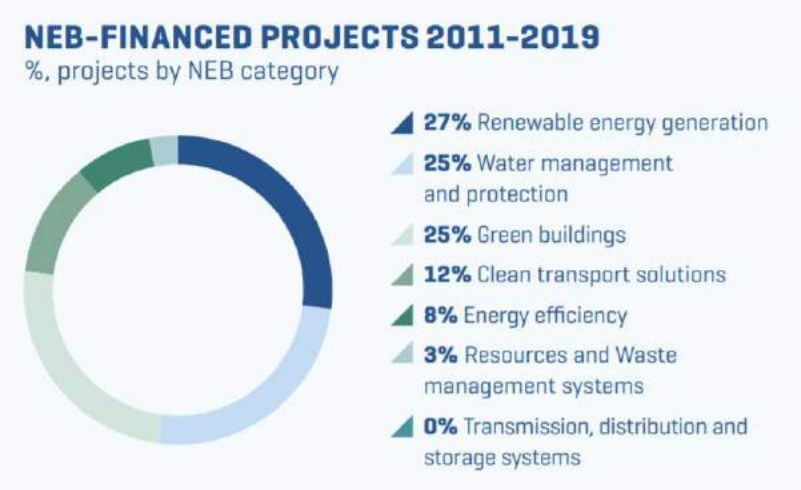
Luca De Lorenzo
Head of Sustainability and Mandate

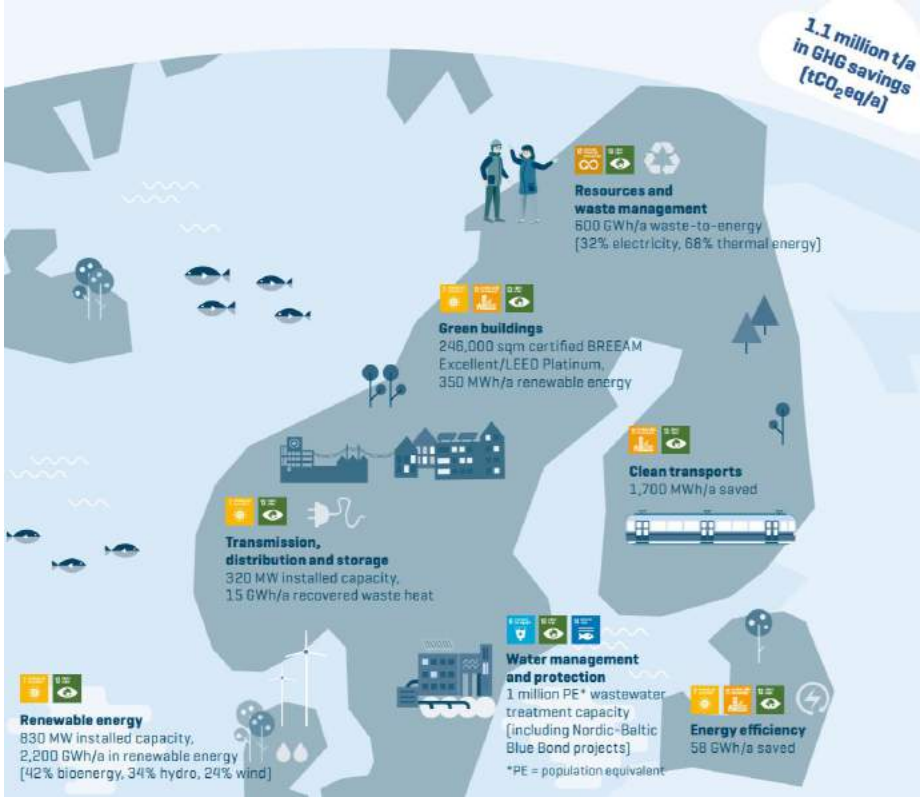
Green bonds have served us well…



- Green Bond programme since 2011
- One of the largest Nordic issuers
- 22 green bonds issuances
- Framework with dark green profile
- Diversified into Blue Bond in 2019
- Transparent impact reporting

…allowing to achieve impact





Standards to further facilitate mainstreaming

- Market ready for mainstreaming
- "Dark green" clear definitions
- Products can now be referenced
- Clear framework for projects pipeline
- Aligned incentives in real economy

The pros and cons of regulations

- Clarity of definition
- Act as a reference
- Comparability
- Push for verification
- Allow mainstreaming

- Too rigid structure in a moving industry
- Green/brown vs. shades
- Usability and interpretations
- Reduced context / local considerations
- Need flexibility to allow innovation

The task at hand is enormous

We need large scale systemic change in our economies

Company wide transformations

- Business models
- Long-term transitions
- Corporate target setting

Supply chain focus and responsibility

- Up and down stream
- Wider accountability

Sector approach including "hard" sectors

- Each sector is specific
- Inclusion of hard sectors (heavy industry, cement, steel)

Use of Proceeds vs. Performance Based

Complementary approaches in sustainable finance

	Use of Proceeds	Performance Based
Use of Funds	Earmarked use of funds for predefined projects/assets (Bond Framework)	General purpose aligned with corporate direction
Focus	Impact of proceeds from financial instrument	Impact created by issuers'/borrower's activity and operations
Commitment	Commitment to spend/allocate according to framework	Commitment to a future target, forward looking
Structure	Structure of instrument constant with no adjustments	Financial or structure characteristics adjusted to outcome of performance (linked to KPI / trigger)
Impact	Green/Social benefit achieved from investment into project/asset	Change in sustainability profile/performance of issuer/borrower
Outcome	Outcome monitored with quantified impact from project/asset	Outcome monitored with documented targets for issuer/borrower
Financial Instruments	Green Bonds Social Bonds Sustainability Bonds Green Loans	Sustainability/KPI Linked Loans Sustainability/KPI Linked Bonds

Increase thematic / labelled bonds

- Sustainability bonds
- Blue bonds
- Biodiversity bonds
- COVID-19 bonds
- Gender bonds
- …

First private-sector "gender" bond to be issued in the Asia Pacific region

Aug 26, 2019

The first private-sector "gender" bond in the Asia Pacific region to be issued by Bank of Ayudhya (Kr
GoldmanSachs 10,000 Women initiative, to expand access to capital for women entrepreneurs glob
Group, and DEG (Deutsche Investitions und Entwicklungsgesellschaft) have agreed to subscribe to th
issued by Bank of Ayudhya in the amount of up to $220 million. The pioneering investment is suppor
Opportunity Facility, a joint initiative of IFC and Goldman Sachs 10,000 Women to expand access to

Fund managers pile into $65bn Covid-19 bond market

Companies and governments rush to issue debt to help ease the effects of the pandemic

Increased focus and transparent reporting to investors on specific themes

Sustainability Linked Bonds and Loans

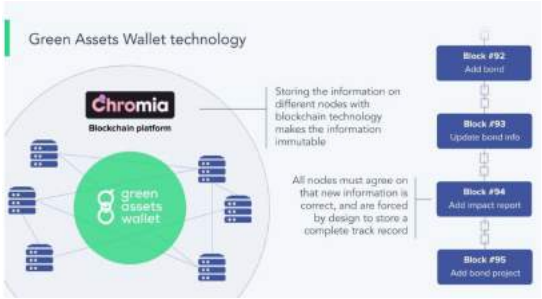
General guidelines have been defined

https://www.lsta.org/content/sustainability-linked-loan-principles-sllp/

https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf

Digitalization of impact reporting

green assets wallet



- Block-chain enabled
- 3rd party validation
- One place for all impact data

Nasdaq

- Consolidated reporting for listed bonds
- Easy to access platform for investors
- Online platform and data

To sum up

- Green bonds has served us well as green finance product in fixed income
- Regulations and standards are coming at the right time
- They can help mainstream further the established green products
- We should allow for innovation to continue
  - Further themes in labeled bonds
  - "Perfomance based" instruments – Sustainability Linked Bonds
  - Digital impact reporting

Q&A

I. Questions from the audience

II. Speaker's perspectives main question (below)

From:
'Is there a role for Nordic governments to facilitate the EU Green Bond Standard for investors?

To:
'What is the role for Nordic governments to (...)?'

Upcoming webinars

Corporate:

Physical and Transition risk

29th October, 10:00 AM - 11:30 AM CEST

Financial:

Climate risk and data

5th November, 10:00 AM - 11:30 AM CEST

Register now

Thank you for attending!

Feel free to contact us

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Mikko Halonen

Leading Consultant
Gaia
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For registration and more info about the **Nordic Platform for Mobilising Climate Finance**, please see here

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