THE IRISH TIMES irishtimes.com

Green Finance

Friday, October 15th, 2021 **Editor** Edel Morgan **Email** emorgan@irishtimes.com.

Beware of greenwashing
Don't underestimate the importance of research Page 2

Sustainable finance key to decarbonised economy

Jillian Godsil

Environmental, social and governance compliance key to investment funds and structures

"If you are a green company, and you're doing something that's beneficial, you can't at the same time be doing something that's harming the environment." PHOTOGRAPH: ISTOCK

Europe is leading the way in sustainable financing with European issuers taking a 62 per cent market share in Q1 2021 according to data from Refinitiv, the American-British global provider of financial market data and infrastructure. Within Europe some markets are definitely more advanced, France for example being particularly strong, while Ireland is behind but catching up fast.

Over the past 12-18 months, green and sustainability-linked financing has been one of the main topics of conversation between market participants. David O'Mahony, a partner at the finance and capital markets department at Matheson, has witnessed this trend.

"Huge strides have been made in terms of approach, knowledge and expertise over this period. I would expect this to continue into the future to the extent that borrowers who do not have some form of green borrowing or a sustainability-linked element to their loan facilities will be outliers in the market."

Waystone, a provider of governance risk and compliance services to help asset managers establish funds and investment structures, is ideally placed to view the changes in the marketplace.

"So particularly within the EU, these changes are mandated," says Jason Poonoosamy, deputy chief executive officer at Waystone.

More transparent and consistent

"In particular, the sustainable finance disclosure regulation or FDR, aims to make more transparent and consistent the disclosures that investment managers or product manufacturers are making about themselves and their products."

This regulation introduces transparency into fund claims. If a company is not ESG-compliant (environmental, social and governance), they actually need to state this fact on their website and in other documents.

"It's a form of name and shame," says Poonoosamy. "It came as a consequence from the Paris Agreement in 2016 and while it has taken some time to be passed into law in March of this year, it is also positively impacting other jurisdictions such as North America and the SEC regulatory body."

The Paris Agreement aims to substantially reduce global greenhouse gas emissions to limit the global temperature increase in this century to 2 degrees above pre-industrial levels, while pursuing the means to limit the increase to 1.5 degrees.

> **It's a form of name and shame. It came as a consequence from the Paris Agreement in 2016 and while it has taken some time to be passed into law in March of this year**

It is seen that access to finance can be a key enabler of all economic activity, and sustainable finance promotes the inclusion of ESG considerations, helping to channel capital towards sustainable economic activities and projects.

Alan Duffy, chief executive and head of banking at HSBC Ireland, talks of other regulations bringing green considerations to bear on finance: "There are a multitude of legal and regulatory changes coming down the tracks which are having an impact on how issuers, investors and financial institutions look at sustainable finance. The EU is leading the way with landmark regulation such as the EU taxonomy which is a classification system established to clarify which investments are environmentally sustainable.

CSRD

"Another key EU regulation is the recently proposed corporate sustainability reporting directive (CSRD) which will require companies to produce a consistent and readily comparable set of periodic sustainability information which will be available to banks, asset managers, investors, regulators and other key stakeholders including NGOs and the general public.

"Closer to home, the Government is due to publish details of its ambitious climate action plan in the coming weeks which commits to a 51 per cent reduction in carbon emissions by 2030 and will have a profound impact across every industry," says Duffy.

These regulations are important to provide clarity on what constitutes ESG-compliant finance and also to avoid possible greenwashing, where companies may overhype or mislead investors on their sustainable governance.

O'Mahony has been speaking with market participants on both the borrower and lender side and believes there is not a systemic problem in relation to greenwashing.

"Notwithstanding that, lenders are very anxious to ensure that there is no actual or perceived greenwashing. There are useful industry guidelines that both lenders and borrowers can follow, eg the loan market association have published guidelines in relation to green loans and sustainability-linked loans," he says.

As capital follows the green model, increasingly competing companies are looking to differentiate themselves along green lines. Poonoosamy reflects that it's not just the case of their status, but how they conform to the individual jurisdictions and their local regulations.

"If you're a green company, and you're doing something that's beneficial, you can't at the same time be doing something that's harming the environment. This is called the principle of least harm or the principle of no harm, so you can't offset one activity with another. The goal is to make sure companies are completely green all the way through."

Duffy argues that the cost of moving to a decarbonised world is less than the cost of doing nothing.

Tens of trillions of dollars

"It is very difficult to estimate how much the move to a sustainable economy will cost. Suffice to say it will most certainly be in the tens of trillions of dollars. However, rather than see it as a cost, we view the move to a decarbonised society as a generational investment opportunity. The recently published and widely quoted IPCC Climate Change report made it abundantly clear that the cost of doing nothing is of far greater concern.

"The pace of adoption has increased rapidly and the momentum behind sustainable finance is really building. An all-time quarterly record of almost $290 billion in sustainable finance bonds were raised in the first three months of 2021, more than double the levels seen a year before. Full-year issuance is set to easily surpass $1 trillion and, with more products being developed and greater awareness, we feel there is much more growth to come."

Money doesn't grow on trees...

Edel Corrigan

...but it is being used to combat climate change

With global warming and climate change – and the damage wreaked by both – in the headlines nearly daily, the importance of every sector committing to reducing carbon emissions is non-negotiable.

In the finance industry, the measures taken to support 'mitigation and adaption actions that will address climate change' are known as 'climate finance'.

Climate finance is when money from public and private sources, nationally and internationally, is used to fight climate change. It includes investments in low-carbon and climate-resilient developments, sustainable infrastructure, clean technology, energy access, renewable energy (including wind, solar and hydro), biodiversity and more.

Mark Jordan, Skillnet Ireland's chief technologist explains: "This finance is typically invested . . . in large-scale initiatives supporting both developed and developing countries in countering climate disruption, or addressing challenges around emissions and the damage caused by greenhouse gases."

As a global problem, there are global initiatives to create climate funds to assist in these endeavours.

Siobhán Carlin, partner, banking and finance William Fry and co-head of William Fry's ESG and Sustainability practice group says: "Investment by multilateral climate funds has to date led the way in climate finance. The Green Climate Fund (established by parties at the UN Climate Change Conference in 2016) is currently one of the largest.

"The EU and its Member States (including Ireland) and the European Investment Bank are together the biggest contributor of public climate finance to developing countries, providing €23.2 billion in 2019, according to recent reports from the European Commission."

However, Carlin continues, there is a growing realisation that public climate finance is insufficient, and current climate action targets will not be met without private capital. Potential sources of private climate finance include commercial banks, investment funds, pension funds, insurance companies and sovereign wealth funds.

"The focus for the private sector will be different to that of the public sector and multilateral funds, as any potential projects will have to present a sufficient return on investment.

> **The private sector is likely to invest in large infrastructure projects which have guaranteed revenue streams and support for debt repayments from national governments**
> – Siobhán Carlin, William Fry

"The private sector is likely to invest in large infrastructure projects which have guaranteed revenue streams and support for debt repayments from national governments," Carlin adds.

There is a recognition by The United Nations Framework Convention on Climate Change (UNFCCC) that the capacity of developing countries to adapt to and prevent climate change is vastly different to that of developed countries.

The UNFCCC, the Kyoto Protocol and the Paris Agreement all call for parties with more financial resources to assist those with less.

One way to help low- and middle-income countries take meaningful steps toward climate action is 'green debt swaps'.

"A green debt swap is intended to allow the respective creditor and debtor countries to agree a repayment plan whereby repayment amounts are bought back in the local currency of the debtor and used towards mitigating and adapting towards climate change, for example development of renewable energy or investment in sustainable forestry," Carlin says.

In recent years, there has been very positive action in Ireland and a strong commitment to climate action by both the public and private sector to investing in projects focusing on the transition to a low-carbon and climate-resilient society, according to Carlin, with the Government of Ireland providing just over €90 million in 2019 in international financial support for climate action measures.

Climate adaptation measures

The majority went towards climate adaptation measures, representing a year-on-year increase in such funding since 2015.

She continues: "This commitment to climate finance is further evidenced by the Ireland Strategic Investment Fund's recently-announced target of one €1 billion investment in climate action projects over the next five years and the Irish Government's commitment to at least doubling by 2030 the percentage of official development assistance spent on supporting developing countries in countering climate disruption.

"As climate change continues to become a growingly pressing area of concern, we are likely to see the practical impact of climate finance more and more."

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Information correct October 2021.

Beware of greenwashing by a fund manager, financial institution or broker

Sandra O'Connell

It is important individuals undertake research to ascertain how their portfolio managers are investing responsibly

There is a new EU ESG plan which has among its aims the establishment of a common language for sustainable finance. PHOTOGRAPH: ISTOCK

How do you know the sustainability claims being made by a fund manager, financial institution or broker are true? You don't.

"Greenwashing continues to be identified by investors as a significant concern when it comes to responsible investing," says Conor Holland, director, environmental, social, and governance (ESG), KPMG in Ireland.

It is important that individuals undertake research to ascertain how their portfolio managers are investing responsibly, but knowing where to start can be hard.

"Practically investors should look for the use of independent sustainability ratings and understand the philosophy that underpins the fund or portfolio. For example, how are companies chosen and funds picked? What are the asset managers trying to achieve in the long-term? Do they have a strong track record in this area? This should be clear in the literature they supply," says Holland.

Not prevalent

Investors should also review the way asset managers report on the performance of their funds. "Do they monitor the extent to which they have addressed sustainability challenges rather than just reporting on growth? In sum, look at reports, check for third-party verification, and do a little bit of your own homework to go beyond the tag lines of 'sustainability' and 'green'," he says.

Greenwashing may not be as commonplace as you fear. "In our experience greenwashing, in the sense of inflated sustainability claims, are not prevalent," says Tara Doyle, a partner at law firm Matheson and head of its asset management and investment funds department.

She believes fund managers and other financial institutions have been reacting to, and proactively anticipating, increased investor appetite for sustainable financial products for some time and, in the absence of any common disclosure standards being mandated by regulators, had in many cases signed up to voluntary codes.

But just as investment styles and philosophies can vary from manager to manager, approaches to sustainability and environmental, social, and governance (ESG) philosophies can vary too.

Help is at hand on that front, she points out, in the form of a new EU ESG Action Plan which has as one of its aims the establishment of a common language for sustainable finance.

"This aim, when realised, should ensure that language used in one product description has the same meaning as it does when used in the description of a competing product, and any claims made by financial market participants in relation to the sustainability of their products should be verifiable," says Doyle.

"If financial market participants are currently engaged in greenwashing the obligation to back up commonly understood sustainability claims with data-based reporting should eliminate such practices."

Obligations

The new ESG disclosure regime imposes regulatory obligations on financial market participants to make public disclosures on their websites, in their pre-contractual documents and in their periodic reports.

"It is a disclosure regime first and foremost, so unlike a product regime, such as UCITS, it does not introduce rights and remedies for investors. Breaches of the regime will be subject to regulatory sanctions, but do not create a direct right of recourse for individual investors," she says.

> **If financial market participants are currently engaged in greenwashing the obligation to back up commonly understood sustainability claims with data-based reporting should eliminate such practices**

It does not rule out more conventional claims, such as mis-selling, but investors would have to demonstrate that they had suffered a loss requiring compensation as a result of the breach of the disclosure regime.

For customers, their advisers and regulator what the new moves mean "is greater transparency and ongoing reporting for funds which position themselves as sustainable, all of which are absolutely in the customers' best interests", says Sandra Rockett, director, wealth and corporate distribution, Irish Life investment managers (ILIM).

ILIM already reports on the number of voting events it participates in on behalf of customers in recognition of the responsibility it has to be their voice.

"We also detail the engagements, whether directly with the companies or collectively with other investment managers, and the positive changes those engagements have had. By speaking up we can help make these companies more sustainable, and that benefits our customers returns in the long run," she says.

Irish Life has been an advocate of responsible investment practices since 2010 when it joined the UN supported Principles for Responsible Investment.

"We hold ourselves to a global standard and in addition to transparency and disclosures we seek independent verification from global rating agencies that the actions we are taking enable us meet our responsibility to customers," says Rockett.

"We provide information to our customers on what the sustainability objectives of these funds are and how they are met before they buy any products from us, and we provide ongoing reporting as to how these funds are positioned in terms of their sustainability objectives."

Complain

If you are unhappy about any company's claims, there are steps you can take.

"Investors can complain directly to the fund manager, complain to the Financial Services and Pensions Ombudsman or take a private legal action seeking one or more civil reliefs," says Lorena Dunne, a partner in William Fry's asset management & investment funds and co-head of William Fry's ESG and sustainability practice group.

She says investor due diligence is a prerequisite to any investment, and the new body of EU sustainable finance disclosure rules aims specifically to facilitate the conduct of such due diligence in respect of green investment products.

"More generally, regulated financial service providers are subject to an array of investor protection rules, and investors have a range of rights, as set out in the offering documents, such as a right to attend and vote at general meetings, to redeem or switch their investment, to request various documents and personal data rights," adds Dunne.

How Green is your Pension?

Jillian Godsil

Environmental investing has grown in recent years and is a priority for these advisors

On April 22st the EU Directive on the activities and supervision of institutions for occupational retirement provision (the IORP II Directive) was signed into Irish Law. At the heart of this legislation is the provision of good governance and risk management to allow for pension investing to have environmental, social and governance considerations – as well as to provide full transparency.

Richard Kelly, head of client business with responsibility for asset management in Legal and General in Ireland (LGIM), notes that LGIM has been operating in this field for many years, even before the directive was signed into law.

"Back in the 70s, we made sure that governance was at the core of our pension advice. We've done this from a responsible investor perspective," he says.

"Environmental investing has really grown in recent years - and is driven by both the bottom up and the top down. For example, COP26, the UN Climate Change Conference, is being held next month in Glasgow and increasingly corporations are looking to transition to a low carbon environment."

He points out that despite the Covid lockdown total carbon emissions only dropped by 6.7 per cent in 2020. "We need to decarbonise much faster and that realisation is being helped by bottom up push, which I call the Greta Thunberg factor. We are really focused on looking at net zero investments."

Sandra Rockett, directorof wealth and corporate distribution with Irish Life Investmetn Managers (ILIM), concurs with LGIM on better governance:

"ESG factors are the additional criteria we consider alongside financial factors when making an investment decision. This includes how a company manages its use of fossil fuels or how it treats its employees. It provides a framework to evaluate investments around environmental, social and governance issues and to what extent they are exposed to sustainability risks or how well positioned they are to capture opportunities as we transition to a more sustainable economy," she says. The bottom-up push is also important to Irish Life. "While sustainable investing has been an important topic for a number of years, we're really seeing a pick-up in consumer interest recently. People want to be able to access funds which enable them to have an influence on how companies behave and the impact their investments have on the broader environment," says Rockett.

Riskier places to invest

Irish Life has conducted their own research into well governed companies. "Our experience tells us that sustainable, resilient, well-run companies are more likely to perform better in the long run. In the current environment, companies that do harm are riskier places to invest in for the long term because they face a future of increasing consumer criticism, government regulation and financial penalties.

"So, investing in responsible businesses means customers can build a better world while giving their money the opportunity to deliver better returns and manage risk at the same time," she says.

"We need to decarbonise much faster and that realisation is being helped by bottom up push, which I call the Greta Thunberg factor."

Like Irish Life, Kelly and LGIM also conduct their own research where they rank 16,000 plus companies using 28 different data points from carbon emissions to gender diversity at board level. "Ultimately the decisions we make are always made with our customers best interests in mind. We want to make sure our portfolio is fit for purpose for the next 20 to 30 years," says Kelly.

Rockett concludes: "We are also very aware of the responsibility we have as investment managers to represent the voice of the customers who trust us with their money. Whether it is around climate, employee rights, clean water or any other ESG issues, we vote on important issues on their behalf. We also engage with companies to influence and improve their ESG behaviour."

Alignment on Green Pensions would appear to allow for better choices for pension holders going forward.

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Case Study Skillnet Ireland

'There is a need to think beyond the obvious sectors when considering climate change'

Barry McCall

Skillnet Ireland has made solid progress in area of green finances by working with industry

Skillnet Ireland is working with industry partners to accelerate the transition to a clean, resilient, and environmentally sustainable economy in all sectors. "Climate change is one of the defining issues of our time," says Skillnet Ireland chief executive Paul Healy.

"It presents significant financial risks to business and society, but also offers opportunities for those willing to lead the transition to a sustainable, low carbon world. With a number of regulatory requirements coming down the tracks there are implications for businesses in understanding required actions and developing talent."

Climate Action Plan

He points out that the country is responding to the challenge of climate change through a range of actions including the government's Climate Action Plan.

"The pervasive nature of the plan means that there isn't a business or citizen that will not be impacted by it. It also has very significant talent implications. Climate action and talent are deeply linked."

"There is a need to think beyond the obvious sectors when considering climate change," Healy adds.

"When people think about climate action they think think about energy and so on. But more discrete ones like sustainable finance are core to meeting our climate targets. Sustainable finance is a less obvious sector. We can see wind turbines and solar farms, but we don't see sustainable financial services in the same way as we don't see a pension fund operating.

"But it is transformative. All roads lead back to talent and funding and resources. Skillnet Ireland brings a unique perspective to that. By working hand in glove with business we help bridge the gap between government and the finance industry."

The organisation has made solid progress in the area of green finances working with industry players in shaping and defining standards, norms, values, and practices that will support the sector in key areas such as research and developing talent, he adds.

> We are seeing a lot of positive action. There is a significant opportunity for Ireland to develop a leadership position in global sustainable finance
> – Paul Healy, Skillnet Ireland chief executive

"We are seeing a lot of positive action," Healy continues. "There is a significant opportunity for Ireland to develop a leadership position in global sustainable finance. We are building on the significant international financial services sector which has grown up here over the past 40 years."

Skillnet Ireland is playing a leadership role in understanding the talent implications of the sustainable finance revolution.

"In 2019 we produced a deep sector analysis of future sustainable finance skills and talent requirements in Ireland," says Healy.

"We diagnosed the challenge and the analysis told us it was a growing sector which presented huge opportunities for Ireland but that there is a talent challenge to be solved at all levels. We have developed a number of programmes to address that including a Sustainability Programme for compliance managers.

Skills needs

"We are now developing a roadmap to guide us on our way to bridging the gap between the talent we have now and the talent we need to develop to meet future needs," he continues. "It's not just about talent development, although that is core. We also need to do horizon scanning to see the opportunities for Ireland and we are working with the industry on that."

The means by which Ireland is addressing the skills needs of the sector through the Skillnet Ireland model has been recognised at EU level.

"It is now seen as the best practice model and has been adopted by a number of other member states," says Healy.

The success of that model is based on partnership.

"Closeness to the industry is imperative," he explains.

"Because we operate as a public private partnership we are very closely aligned with industry and our programmes are based on market demand with a high degree of matching to industry needs.

"It's a fast-moving sector with new demands for skills all the time and that requires deep collaboration with employers in close alignment with the labour market."

Investors express strong appetite for green bonds

Jillian Godsil

Green bonds may not deliver as high a return initially, but tax breaks and other incentives can make up shortfall

Companies are increasingly prioritising Environmental, Sustainable & Governance (ESG) projects to deal with the risks and opportunities facing their businesses.

Issuing a green bond to finance these projects represents a visible commitment to ESG principles.

Investors have a large appetite for green bonds (as they integrate sustainable and impact investing criteria into their portfolios) and this can sometimes mean lower borrowing costs for a green bond issuer, and subsequently a lower return for investors.

Richard Kelly, partner in finance and capital markets department, Matheson, defines green bonds as any type of bond instrument where the proceeds will be exclusively applied to finance or refinance eligible green projects. There are numerous voluntary standards that define what constitutes an eligible "green" project, but the most widely used is the Green Bond Principles (GBP) published by the International Capital Markets Association (ICMA) (used by approximately 98 per cent of the green bond market).

Classification system

"The EU is also passing legislation which provides additional guidance on what constitutes a 'green' investment. The EU's Taxonomy Regulation provides a classification system for establishing a list of environmentally sustainable economic activities, and the EU's recently proposed 'EU Green Bond Standard' will provide an EU Taxonomy-aligned voluntary standard for green bond issuers," says Kelly.

Conor Holland, director, ESG, KPMG in Ireland, points to the increasing popularity of green bonds.

"They are becoming more popular as investors demand socially responsible investment opportunities and have expressed a strong appetite for green bonds," says Holland. "While retail investors demand sustainable investments from brokers and fund managers, institutional investors (eg pension asset managers) are using green bonds to address ESG mandates. Additionally, central banks are driving sustainable finance which is intrinsically linked to green bonds."

Definitions of what counts as "green" have in the past varied. The EU green bond standard is a significant milestone in bringing a uniform definition of green bonds to market participants.

"Green bonds, however, ensure that refinancing occurs in a manner that is directly linked to the issuer's sustainability objectives and highlights them to all stakeholders," says Holland.

> They are becoming more popular as investors demand socially responsible investment opportunities and have expressed a strong appetite for green bonds

"Projects that are being refinanced through green bonds are presented with full transparency and benchmarked against green definitions and taxonomies with the input of external reviews.

"The reliable clarification permits the issuer to explain how their use of proceeds contributes to sustainability and permits investors to assess and monitor the development of the green component over time, creating a positive incentive to change.

"This does not occur with other types of mainstream debt finance. Refinancing also of course makes additional funds available that can be reinvested into new green projects or to finance an issuer's overall transition strategy. These projects can be in turn refinanced by new green bonds and so on," says Holland.

Andy Murphy, managing director in structured finance company Waystone, outlines that green bonds may not deliver as high a return initially, but tax breaks and other incentives can make up the shortfall.

"If you look at a green bond, it's probably going to have a lower rate of return. But given that everyone wants or needs a green bond and an ESG investment within their portfolio going forward, there's more competition to actually lend to these products or to buy these kinds of products.

"If there's a lot of competition that means that the issuer of the green bond can set the price. If the green bond is oversubscribed it means that they can effectively choose the ambassadors, their preferred investors as well. Generally, I would say the return of a green bond is not as attractive. However, there are tax incentives as well and tax breaks for buying green bonds."

A lower yield

Grit Young, M&A partner at EY Ireland, believes that investors should be prepared to take a lower yield.

"If you buy something from a sustainable supply chain you normally pay a premium for that. However, over the last 15 or so years people have made green investments and actually they've been very profitable. But that's probably also a reflection of the world slowly but surely waking up to climate change."

She also argues for government to be more robust in their regulations. "If we don't police green bonds then we're going to invest in projects that are not worth investing in, and we would have wasted that wealth.

"And if climate science doesn't progress quickly enough, and that doesn't get fed back down to the people who are investing or the issuers, who in turn invest in projects, then again we will have wasted precious opportunities to invest in what really matters."

Regulations are making an impact but what about people?

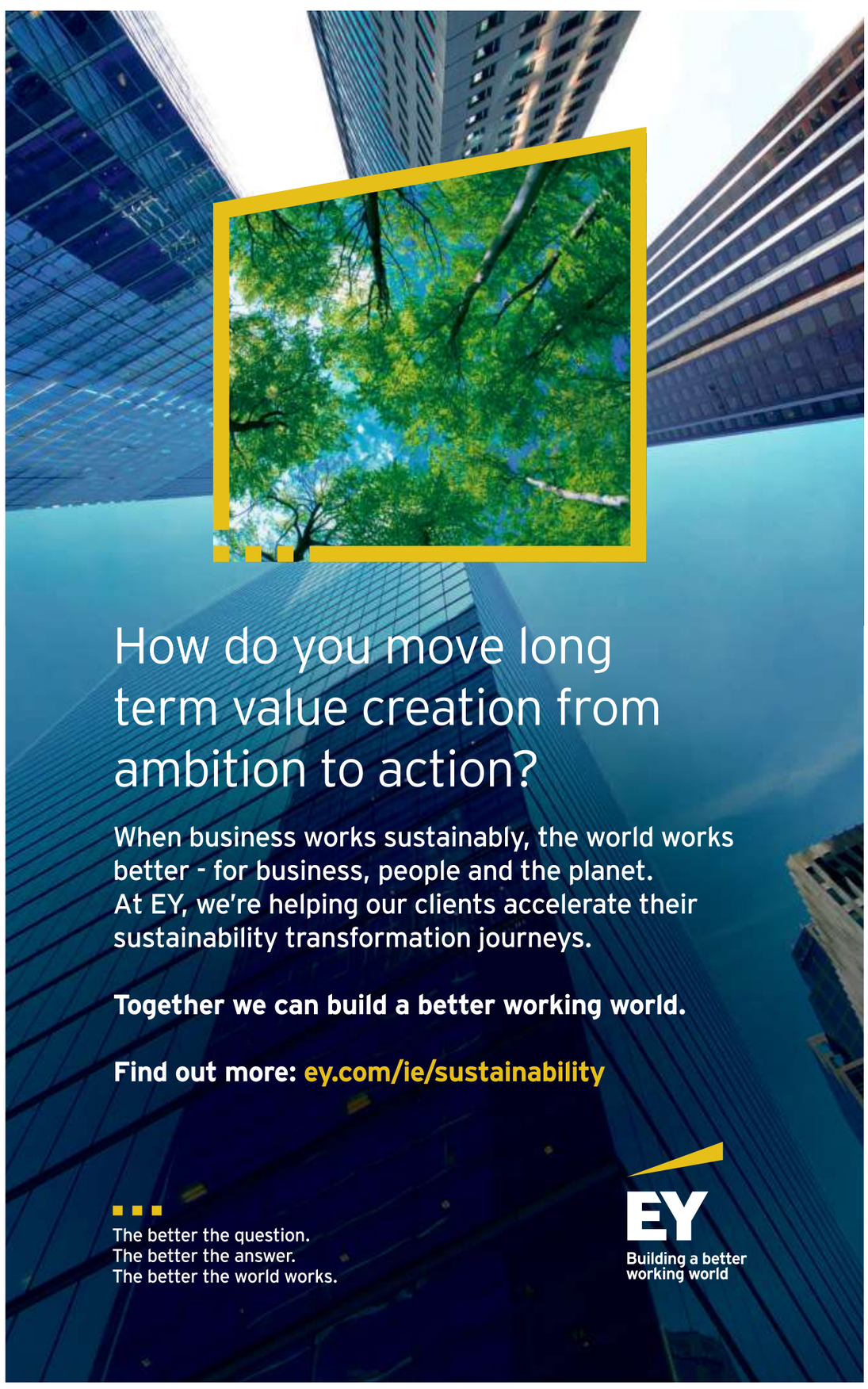
Upskilling

Mark Jordan, chief technologist at Skillnet Ireland, is involved in upskilling and training people in Irish SMEs. The education is as varied as a half-day webinar to a PhD programme on data analytics, and his clients range from a farmer looking to implement green agritech all to way up to tech giants such as Dell.

"We are supporting almost 20,000 companies and training their staff. It's people that create these instruments and people that purchase them. Our work concentrates on Irish employees and is assisted with European subsidies."

In addition to green bonds there are also substantial growing markets for social bonds – where the proceeds are applied to social projects such as affordable housing, sustainable food systems and agriculture, infrastructure, and dealing with the consequences of Covid-19 – and sustainability bonds, where the proceeds are applied to both green and social projects. It's an expanding market.

■ The EU is passing legislation which provides additional guidance on what constitutes a 'green' investment. PHOTOGRAPH: ISTOCK



Getting the green light for investments

Edel Corrigan

Are green equity funds helping climate change?

In the world of investment a commitment to sustainability has become increasingly important. While sustainability can encompass many areas, in investing one of the key ways of going "green" is with "green equity funds".

"A green equity fund is one that provides equity finance to companies and investment vehicles that actively support sustainability through the prevention of greenhouse gas emissions or similar technology to decelerate climate change," says Grit Young, M&A partner, EY Ireland.

"They are a specialised product which appeal to those investors who have a real focus on Environmental, Social and Governance (ESG) outcomes."

She says that green equity fund managers are responsible not only for the return on investment, but also their "ability to achieve specific climate goals such as the reduction of greenhouse gas emissions".

As part of the European Green Deal – the European Commission's strategy to address climate change and achieve net zero emissions by 2050 – the Sustainable Finances Disclosure Regulation (SFDR) provides increased transparency for investors so that they can understand how committed a fund is to ESG investing.

'Light green'

Shay Lydon, partner, asset management and investment funds group, Matheson, says: "One particular feature of SFDR has been the introduction of what have been colloquially referred to as 'light green' funds (pursuant to Article 8 of SFDR) and 'dark green' funds (pursuant to Article 9 of SFDR)."

Light green funds promote governmental responsibility in companies, and environmentally friendly or socially responsible assets, says Lydon. These funds may have a variety of aims, including capital appreciation. However, "dark green funds only make investments that contribute to environmental objectives, social objectives or social advancement".

"These funds cannot invest in their chosen objective to the detriment of the other objectives listed. For example, these funds could invest in a company building wind farms – but not if the company breached equality requirements in its employment conditions."

How prevalent are green equity funds?

Young says: "There are thousands of green equity funds in Europe alone and they are rapidly growing in popularity. Greater infrastructure around these funds is also starting to emerge so that investors can have greater certainty that their money is being invested responsibly, with industry and professional bodies playing a role in this."

Pros and cons

According to Lydon, an industry survey of Irish funds members conducted in June 2021 indicated that about 17 per cent of Irish funds are green equity funds (15 per cent light green and 2 per cent dark green funds).

Are green equity funds working? In the fight for climate change, are green equity funds pulling their weight?

Young says there are pros and cons. "Investing in green equity funds is a way of directing funds into areas that will explicitly address climate change and other sustainability related initiatives.

"Directing our existing wealth resources in this way should be one of the most efficient and effective ways to combat climate change and other externalities."

However, she says "the scope for greenwashing, or even investor passivity, is high with these products".

She explains that people are often willing to pay a "conscience premium" for items so we can "point to doing our bit for a particular cause". The key lies in "assessing and being capable of holding your fund manager to account for how green your fund actually is" because "this could be a major con of these products".

"Determining what sort of premium you should pay for this is not straightforward. You are one step removed from the actual climate protection action, and where to invest to get maximum returns for our planet is a complex question. Investor risk preference alignment is also difficult."

Funding the green transition

Barry McCall

Many companies seeking to fund more carbon-efficient technologies are using sustainability and transition bonds

'We are already seeing oil and gas, steel, airlines and other hard to abate sectors looking at transition finance instruments."
PHOTOGRAPH: ISTOCK

The shift to greener and more sustainable business models comes with a price tag. Companies therefore need to raise the finance to invest in more carbon-efficient technologies and to pay the cost of decommissioning older energy-intensive and polluting assets.

The instruments of choice for many companies seeking to fund these investments are sustainability and transition bonds.

Generally speaking sustainability bonds finance spending on green investments, according to Courtney Lowrance, managing director, sustainable banking and corporate transitions at Citi.

"How we see the market evolving is that there are generally two types of sustainability bond," she says. "The first one is likely to use the proceeds for green, social and sustainable investments. The second one is sustainability-linked, and the proceeds are for general corporate purposes but they are structured so that they are linked to sustainability key performance indicators (KPIs). There is a step up in the coupon if the company doesn't meet those KPIs."

In other words the interest the company pays on the debt bond rises if it does not meet the stipulated sustainability targets.

"Sustainability bonds are a use-of-proceeds instrument whereby the bond proceeds are used to finance or refinance projects that address environmental and social objectives," adds Alan Duffy, ceo and head of banking with HSBC Ireland.

"They operate in a similar fashion to green bonds but are focused on projects with a mix of both social and environmental benefits. Issuances to date have been largely focused on areas such as social housing, clean public transport and renewable energy projects for SMEs."

And they are growing in popularity.

"Sustainability bonds are proving particularly attractive for supranational issuers such as the World Bank, with the heightened focus on coronavirus response efforts driving 2020 volumes higher, more than doubling to about $160 billion," says Duffy.

"One of the most notable trends over the last 12 to 18 months has been the sharp rise in the popularity of sustainability-linked bonds. As these instruments are available for general corporate purposes, they have much broader potential application, with issuers quite evenly spread across a wider range of sectors from consumer staples to healthcare and technology."

Carbon-intensive sectors

Transition finance is a horse of a different colour, however.

"Transition bonds are an emerging financing structure developed to address carbon-intensive sectors and issuers such as energy, transport and industrials," says Duffy. "Bond proceeds are generally targeted at projects which cut CO2 emissions but don't use green technology. Transition bonds are a use-of-proceeds instrument whereby the loan proceeds are used for specific eligible projects. Eligible projects could include, for example, an investment in the gas network to facilitate the future transportation of hydrogen and other low-carbon gases."

Transition bonds are particularly useful for energy companies seeking to raise finance at competitive rates, according to Grit Young, M&A partner with EY Ireland. "If they put bonds on the market that they are going use for energy transition that will get them into the green investment space. It also allows investors put money into oil and gas companies without getting into brown investments.

> **Transition bonds are an emerging financing structure developed to address carbon-intensive sectors and issuers such as energy, transport and industrials**

"Some energy companies have dual listings. They are trying to reduce the cost of capital. But it will take a bit of time to create a standard framework for green finance of this nature, it's still fairly new."

And the pace of change makes it difficult for investors. "The goalposts are constantly changing," Young adds. "Investors have to continually re-evaluate if they are putting their money into the right technology. They want to put their money into green assets that give the best financial returns and the best climate return."

The early-stage nature of the transition finance market is also noted by Lowrance, who points out that there have only been 16 issuances carrying the label over the past few years. "That's not a lot and they have met with mixed results," she says. "Transition finance is a very nascent market."

There are no standards for it yet, and the International Capital Market Association (ICMA) has not felt the need to create any. "There is a feeling that we have enough labels and they all focus on some sort of transition," she adds.

This can create problems for the issuers of such bonds. While there is considerable investor appetite for green, sustainable or social bonds, if a transition bond does not meet the standards for one of those investments it might be excluded from portfolios.

Lowrance does believe the market for the bonds will grow, however.

"Transition bonds are needed and there will be growth. The most visible ones we have seen so far have been in oil and gas. Energy infrastructure operator Snam was the first issuer. However, they have generally been investing in gas infrastructure which is seen as a transition fuel but to mixed results. Investor feedback says it felt too much like business as usual."

Decarbonisation

That said, she is bullish on transition bonds.

"We are seeing real acceleration in decarbonisation and that requires companies to invest significant amounts of capital. We are already seeing oil and gas, steel, airlines and other hard to abate sectors looking at transition finance instruments."

The use of sustainable finance instruments in general is widely expected to increase sharply over the coming years, according to Duffy.

"HSBC recently concluded its annual Sustainable Financing & Investing survey for Europe, and the results showed almost 97 per cent of European companies plan to start to transition to ESG-friendly business models within five years," he says. "It is clear from our interaction with corporates and investors alike that sustainability has become a top priority, and we've definitely noticed a heightened urgency around this topic.

"Sustainable finance has a major role to play in enabling the transition to net zero, and it's great to see European companies leading their global peers and actively embracing these innovative financing instruments as they tap into global capital markets."

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HSBC

Thinking about a loan? A green option is now available

Mimi Murray

Green loans are similar to traditional loans – but four key pillars underpin the concept

Applicants need to meet the respective lending institutions eligibility criteria to ensure the funds are to be utilised in a designated green project. PHOTOGRAPH: ISTOCK

Trying to be more sustainable? You can now green up your loans as well as your investments. But what is a green loan?

Green loans are loans aimed at advancing environmental sustainability and are similar in nature to green bonds. They are any type of loan instrument made available exclusively to finance or refinance new or existing eligible green projects.

These projects include renewable energy, energy efficiency, clean transportation, green buildings, biodiversity conservation, sustainable water and waste management.

Green loans are similar to traditional loans, however as per the LMA guidelines known as the "Green Loan Principles", there are four key pillars underpinning a green loan, Alan Duffy – chief executive and head of banking at HSBC Ireland says.

"Use of proceeds: this is the fundamental determinant of green loans whereby the entirety of the loan proceeds under a green loan must be used for a green project," he says. "Process for project evaluation and selection – the borrower of a green loan should clearly communicate to its lenders its environmental sustainability objectives and the process by which the borrower determines how its projects fit within the eligibility criteria for green projects; management of proceeds – proceeds of a green loan should be credited to a dedicated account or otherwise tracked to maintain transparency and promote the integrity of the project.

Up-to-date information

"And reporting: borrowers should keep up-to-date information on the use of proceeds including a list and description of the green projects to which the proceeds have been allocated. The Green Loan principles also recommend the use of qualitative and quantitative performance indicators, for example energy capacity, greenhouse gas emissions reduced and disclosure of the key underlying assumptions."

Mark Jordan, Skillnet Ireland's chief technologist, says these loans are available both domestically and to businesses with many of the major lending institutions now offering green loan facilities to new and existing customers in an effort to provide more competitive and cost effective access to liquidity – with the benefits of repayment flexibility and rates being typically lower than those of traditional loans.

"However, in order to qualify, applicants need to meet the respective lending institutions eligibility criteria to ensure the funds are to be utilised in a designated green project, and as we see this demand increasing, we will also see an increase on regulation and disclosure requirements for banks and lenders," Jordan says.

All designated green projects should provide clear environmental benefits which are assessed, and where feasible, quantified, measured and reported by the borrower.

Stimulates more competition

"The majority of green loans in the corporate banking space don't provide any explicit reduction in loan interest margins, however green loans will generally see greater demand from lenders which stimulates more competition which tends to lead to lower pricing. In the personal and business banking space, a number of lenders have started to offer explicit pricing benefits, for example green mortgages," Duffy says.

Green loans are still a relatively small part of the overall loan market with some $80.3 billion (€69.5 billion) issued in 2020, according to research from Bloomberg. However, the market is evolving quickly and there will most likely be a significant increase in green loans over the coming years, he adds.

> **The majority of green loans in the corporate banking space don't provide any explicit reduction in loan interest margins, however green loans will generally see greater demand from lenders which stimulates more competition which tends to lead to lower pricing**

Paul Travers, head of energy, climate action and infrastructure at AIB, says "greening our loan book and helping our customers transition their activities for their businesses and homes is key".

Despite Covid-19, AIB's green lending activities rose to some €1.5 billion in 2020, and to €913 million for the first half of this year.

"This primarily consists of lending to windfarms and high energy-efficient buildings," Travers says. "But we need to do more and accelerate our efforts. Our latest initiative is the introduction of our green personal loan for consumers looking to make changes to their homes or lifestyles that help lower carbon emissions and fight climate change.

"We are hopeful it will act as a catalyst for greater retrofitting activity and we are therefore offering more attractive rates than standard personal loans, encouraging people to make changes that will help protect the planet."

How much can be borrowed?

Customers can borrow between €3,000 and €60,000 for a term of up to 10 years, depending on the amount of the loan and the purpose.

"At 6.25 per cent (annual percentage rate), our green personal loan is our lowest rate on offer," he adds.

In order to ensure that these loans are being used to support consumers reduce emissions, each application is supported with invoices or quotes showing that at least 50 per cent of the money being borrowed will be spent on going green.

These include items such as: wall, attic and floor insulation; windows and doors replacement or upgrade; ventilation systems; renewable energy systems, including heat pumps and solar panels; sustainable water systems; boiler upgrades and pipe insulation; installation of energy efficient heating controls; and electric or plug-in hybrid vehicles or home charging units. The most popular items include hybrid vehicles, window and door replacement and upgrades, and renewable energy systems.

"Green lending is considered to be key in achieving national and international climate action goals and ensuring long-term environmental sustainability. All indicators predict demand for green lending will continue to grow exponentially in the coming years as consumers and enterprises place more emphasis on greening their homes, ways of transport and adaptive business models," Jordan says.

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Case Study AIB

Bank aims that most its new lending will be green or transition by 2030

Sandra O'Connell

Sustainability has been a key strategic priority for AIB since it published its first sustainability report in 2017.

"We see climate change as the greatest challenge facing this generation. We believe that if we don't take action now – as individuals, as a society, in politics and in business – our children and our grandchildren will not forgive us," says its chief executive Colin Hunt.

He believes AIB is leading by example. It was the first Irish bank to pledge to operate as carbon neutral by 2030, using a net-zero approach. That means cutting greenhouse gas emissions to as close to zero as possible – through elimination of carbon rather than offsetting it. It has reduced its electricity by 30 per cent since 2014, versus 2019 figures, and its overall emissions by 40 per cent.

Other measures include a €1.6 million investment in LED lighting upgrades across 52 locations, plus ongoing branch network retrofits for heating and cooling systems and the installation of energy meters. It is the only bank in Ireland or the UK to make the Carbon Disclosure Project (CDP) A list this year.

But he believes banks play an important role externally too.

"Given the investment required to finance the transition to a low-carbon economy is estimated at circa €50 billion for Ireland, it is clear that banks have a crucial role to play in supporting individuals and businesses to make the transition through the provision of loans in a manner that helps in the fight against climate change," he explains.

AIB has already stated its ambition that 70 per cent of all new lending will be "green" or "transition" by 2030.

Sustainability-linked loans

It is now accelerating the rollout of products and services that assist customers in reducing their carbon emissions. "On the personal side, these include attractively priced green mortgages to support customers seeking to buy energy-efficient homes and green personal loans for purchases such as an electric vehicle, upgrading home insulation or windows or installing renewable energy systems," he explains.

AIB also offers sustainability-linked loans (SLLs) to eligible corporate customers. Where the relevant criteria are met, these offer firms a reduced rate of interest linked to the achievement of ambitious, predetermined sustainability targets.

The bank offers what he reckons is the lowest green five-year fixed-rate mortgage in the Irish market, with rates starting at 2.10 per cent where the loan represents less than 50 per cent of the value (LTV) of an energy-efficient home (BER B3 or higher).

> **One of our goals is to ensure a greener tomorrow by backing those who are building it today**
> – AIB chief executive Colin Hunt

"One of our goals is to ensure a greener tomorrow by backing those who are building it today. AIB's green lending to renewables and green buildings rose to €1.46 billion last year compared with €1.2 billion the previous year, demonstrating the momentum behind the transition. Green and transitional lending accounted for 20 per cent of our new lending in the first half of the year," he says.

The bank's energy, climate action and infrastructure lending continued to be both the fastest-growing and the best-performing loan book in AIB.

"Our own research shows 57 per cent of people think Irish businesses should help them make environmentally friendly choices," adds Hunt.

Green capital

Moreover, the more green lending it does, the more green capital it can attract. "AIB has over the last year or so raised €1.75 billion from issuing green bonds as investors are attracted by AIB's strong green lending credentials," says Hunt.

Right now one of the biggest dates on the horizon is Cop26, the 26th UN Climate Change Conference of the Parties, which takes place in Glasgow in November.

The pressure to reach transformational agreements will be intense as governments around the world look to accelerate the plans necessary to reduce carbon emissions and make meaningful improvements to national determined contributions (NDCs) – the key measure for countries around the world.

"Building on Ireland's Climate Action and Low Carbon Development Bill, and Ireland's first carbon-neutral budget, we will be further developing robust plans and decarbonisation supports and metrics for customers to deliver meaningful reductions, especially for the most carbon-intensive sectors," says Hunt.

The changes it plans will give effect to new EU banking regulations promoting greener lending as the European Central Bank prepares to stress test all Eurozone banks in 2022 against their ability to withstand climate change risks.

"We know there is widespread public support behind the drive to limit global warming as our own research shows people increasingly want greener products and services. However, that doesn't mean the transition will always be easy," cautions Hunt. "Change is coming and there will be challenges ahead as consumers and businesses are required to adapt to new, greener ways of living and banking."

Securitisation works for green investments

Barry McCall

Concept first came to public attention with the issuance of what became known as Bowie bonds in 1997

■ Rock star David Bowie partnered with Prudential Insurance Company to securitise the future royalties on his back catalogue of 25 albums and raised $55 million in the process. PHOTOGRAPH: MARTIN RICKETT

At its simplest, securitisation is the creation of an investment product – a security – by bundling a number of different assets together. These assets can have various degrees of risks associated with them and a range of expected rates of return.

The theory behind the bundling is safety in numbers – the chances of all or a majority of the assets in the bundle underperforming is quite low. That's the theory anyway, but the global financial crash showed that it doesn't always work out in practice.

You can securitise just about anything that has the potential to produce income. The concept first came to wider public attention with the issuance of what became known as Bowie bonds in 1997. Rock star David Bowie partnered with Prudential Insurance Company to securitise the future royalties on his back catalogue of 25 albums and raised $55 million in the process.

In effect, investors got a share of the royalties generated by the albums for the lifetime of the bond – 10 years in that case.

Mix of green assets

The concept is now being applied to green investments. For example, electric vehicle loans of varying terms and interest rates can be securitised with the investors benefiting from the repayments made by the individual car owners. It can also be done with home-retrofitting loans or wind farm loans or even completed renewable energy developments or any mix of green assets.

One of the key advantages of securitisation is the way it can be used to broaden investor interest in assets that might otherwise be viewed as too small or risky on their own. "By bundling small loans or projects together as an investment product you can widen interest among investors," explains Grit Young, M&A partner with EY Ireland. Investors usually have selection criteria including size, expected rate of return and risk profile, she adds. Bundling lots of small products together can help meet those criteria.

The risk profile of assets can also change over time, Young notes. "You can have projects at various different stages of their life cycle. The easiest to explain is a wind farm project. In one case, you might have a site but no planning permission which needs to be financed. In another case, you might have a site and planning permission, and in another you might have an operational wind farm which is generating revenue. Investors require different rates of return at different stages of a project as the risk decreases.

"You can use securitisation to invest in smaller local projects," Young continues. "You don't necessarily have to invest in a massive offshore wind farm. You can invest in microgeneration and small wind farm projects. It opens those projects to a wider pool of investors."

And those investors can be quite varied, according to Young. They include financial institutions seeking to fund green initiatives and fund managers with sub-funds specifically geared towards environmental, social and governance investing. "At the moment it's mainly banks, private equity houses, insurance companies," she adds.

Stephen McLoughlin, head of finance at the Maples Group in Dublin, sees green securitisation as a growth area. "Growth of green products and the green securitisation industry will continue, not only as a response to commercial forces, but also as a consequence of international governmental policy which has placed sustainable development goals at the centre of policy initiatives," he says.

Young agrees. "Green finance overall is growing at a massive speed," she says. "It is growing exponentially and there are a number of reasons for that. A lot of government actions in future are expected to penalise polluting industry. Investors look at future cash flow versus risk and green investments typically had less cashflow and governments had to subsidise them. As governments start penalising polluting industries, cash flow is tilting in favour of green investments."

> **You can use securitisation to invest in smaller local projects. You don't necessarily have to invest in a massive offshore wind farm. You can invest in microgeneration and small wind farm projects**

That will have an impact on financial institutions and investors who find themselves holding brown portfolios and who haven't already priced in the risk-government penalties. "There is a bit of a scramble among all investors to diversify with a lot of competition for green assets."

There is also growing demand from retail investors. "These products make people feel better and there is increased demand from investors generally to diversify," says Young. "All of that is creating demand. The price of green assets is high at the moment. Getting a good yield from green investments is going to be harder."

Early-stage assets will be cheaper than later-stage and that will make it easier to securitise those at the earlier stage.

But there are challenges to be overcome, according to McLoughlin. "Standardised criteria are required to allow the proper assessment and categorising of 'green' investment products and avoid companies giving a false impression of an investment's green credentials – greenwashing. Time is also needed for the development of the green economy in order to generate sufficient volumes of green assets which can then form the basis of green securitisations."

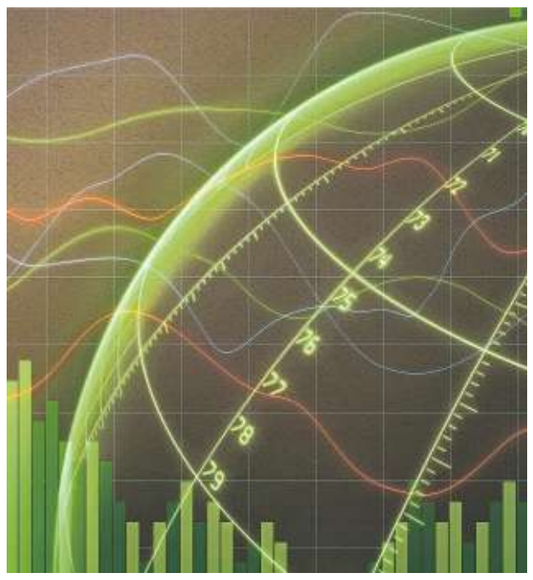
There is an opportunity for Ireland, however. "Over the last 30 years Ireland has become a leading jurisdiction for securitisation and other structured finance transactions," says McLoughlin. "Given Ireland's established infrastructure and regulatory regime together with its highly developed international financial service industry means Ireland is well-placed to build on its strong track record in the securitisation market and become a core jurisdiction for the future growth of the sector."

Case Study LGIM

Aligning investment portfolios with social and environmental beliefs

Mimi Murray

Fund serves investors concerned with climate change implications of equity



■ L&G ESG Paris Aligned World Equity Index Fund for institutional investors in Ireland and Europe is aimed to provide global market exposure to pension scheme investors who are seeking to align their portfolios with climate outcomes. PHOTOGRAPH: ISTOCK

Legal & General Investment Management (LGIM) recently announced the launch of its L&G ESG Paris Aligned World Equity Index Fund for institutional investors in Ireland and Europe.

The fund is aimed to provide global market exposure to pension scheme investors who are seeking to align their portfolios with climate outcomes and to maintain a robust societal and governance profile for their equity exposure.

Richard Kelly, head of client business at LGIM Ireland, says, "We have aligned the fund from a carbon emissions perspective with the 2050 goals of the Paris Agreement. From the day of launch, it had a 50 per cent reduction in greenhouse gas emissions than a standard world equity index, then on a year-on-year basis the fund needs to decarbonise by 7 per cent per annum. We're all being asked to decarbonise by this amount if we have any chance of hitting the goal of 1.5 degrees reduction by 2050."

Paris-alignment

The fund does not only have a strong "environmental" focus through its Paris-alignment, but tilts towards companies with better "social" and "governance" scores.

"We've incorporated 'social' and 'governance' within the portfolio. We score over 17,000 stock with the LGIM scoring methodology. We score the companies that could go into the fund, who are the best performers with a positive ESG [environmental, social and governance]," Kelly says.

The fund, which has been up and running since July, has already seen huge interest from clients and there is now €800 million in the fund. This is led by large institutional investors.

"I am delighted a large Irish defined-contribution scheme was one of the first investors in the fund. It's very attractive to companies with younger members. They are engaged in what's going on in the world and are pushing that they can invest their own pensions in funds that are aligned with their thinking. It's going to be a core part of many of our client's portfolios in coming years," he says.

> **This fund is integrating ESG into the portfolio, and a generation of young members of DC schemes have been saying the choice they have had for many years doesn't align with their beliefs** – Richard Kelly, head of client business at LGIM Ireland

"A lot of pension investors will need to have exposure to equity markets. Over the long term, history has shown equity markets provide the best return for investors, and when young investors are starting out on pension savings they need to try to create the biggest pot available to them. This fund allows them to have the equity market exposure they need to get the returns but also does it in a sustainable way," he adds.

Climate change

"We can see regulators asking trustees of pension schemes to consider ESG risks within their own portfolios and to make sure they are taking adequate steps to address that. Companies that are concerned about climate change within their own equity portfolio, moving their assets to a fund like this will help address this risk."

He says he sees this as giving the next generation a choice. "For many years the Irish market was dominated by ethical funds, not necessarily ESG but driven by ethical beliefs. This fund is integrating ESG into the portfolio, and a generation of young members of DC schemes have been saying the choice they have had for many years is insufficient and doesn't align with their beliefs."

There is no guarantee this fund will outperform a fund that is non-ESG but Kelly says over the last number of years they have seen ESG funds outperform regular funds.

"That is because ESG funds and carbon-aligned funds have less exposure to the gas and oil industry than standard market funds. That industry has underperformed. These funds are typically seen as more expensive and there's a premium on having them.

"What we're doing is bringing it to the market and it's cost-effective.

Transparent

"You don't need to be some of the largest pension schemes in Ireland to have such an advanced fund as this where we're screening 17,000 stocks and looking at carbon footprint.

"It's also very transparent, how the fund is built."

Meanwhile, LGIM is currently working on another ESG-aligned fund on global diversified credit. "Credit is used as a diversifier away from a typical equity portfolio, it can be used for DC schemes or DB schemes or insurance companies.

"The idea with this fund is to make sure it's an article eight fund, so the ESG criteria is embedded into the portfolio.

"We're bringing our emerging market debt, global high yield and investment grade credit together into one portfolio that investors would be able to have access to. It won't be Paris-aligned, it won't be decarbonising but it will achieve an article eight rating, all subject to Central Bank approval."

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Sustainability a key attraction for investors

Large asset-management firms are seeing a huge growth of interest

Sylvia Thompson

Asset managers have witnessed an exponential growth of interest among investors in socially and environmentally responsible companies in the past few years.

With the imminent gathering of policy-makers, politicians, corporate managers and activists at COP26 in Glasgow in November, it's not surprising that some companies are wooing these eco-conscious investors by demonstrating sustainability across their processes, products and work practices.

Richard Kelly, head of client business in Ireland for Legal & General Investment Management (LGIM), says that as asset managers they engage directly with companies to improve their sustainability ranking.

"We give companies a score based on their environmental, social and governance factors, and we push them on their environmental footprint, their business ethics, their social diversity and we also look at investor rights," says Kelly.

The latter refers to the amount of shares investors are required to have to be allowed to vote – and therefore influence the company's policies – at annual general meetings (agms).

80

LGIM's Climate Impact Pledge grew from in 2016 to more than 1,000 companies in 2021

"It's important to make sure that these practices are supported at board level. The day after we attend agms we publish our notes for/against board resolutions so investors know that asset managers have these issues close to their heart as well," adds Kelly.

LGIM's Climate Impact Pledge grew from focusing on 80 companies in 2016 to over 1,000 companies in 2021. Information on the performance of these companies across a range of sustainability rankings are publicly available on the LGIM website which ensures transparency and drives change.

"In some of our portfolios we will increase the amount of investment if a company has higher scores," says Kelly.

"We will also work with companies to improve their practices and exclude them from the environmental/ social/ governance portfolio if they don't."

For example, the American food company Kroger was excluded for a time and then brought back into the portfolio when it committed to making new plant-based products with a lower climate impact and reducing emissions in its operations. EU regulations are also driving capital towards companies aligned with the Paris Agreement.

Kelly says that investing in companies that are transitioning to a low-carbon environment will continue to return better investment.

"During the Covid pandemic people realised that Covid and climate are intrinsically linked and became more concerned about the world around them than ever before," he says.

LGIM is also a founding member of the Net Zero Asset Managers initiative which was launched in December 2020.

Momentum

Sanaa Mehra works in the sustainable debt capital market for Citi. She says that the momentum of investors' interest in environmental, social and governance investing has grown significantly over the last few years, and particularly intensified post the Covid pandemic.

"Previously environmental, social and governance (ESG) factors were a tick-box exercise but now investors are acutely aware of sustainable products and managing material ESG risk across all industries. They want to see companies' decarbonisation plans and their sustainability and diversity policies," she says.

"The issuance of sustainable bonds (including green bonds) in this space has grown from $34 billion in 2014 to $700 billion so far in 2021," says Mehra. "We expect it could rise to $1 trillion by the end of 2021."

Citi is an underwriter in the green bond market, and often works with companies in setting up green and sustainable finance frameworks which enables the issuance of instruments like green bonds. "It can take three to six months to develop a green bond on behalf of a company," says Mehra.

EU guidance

She says the definition of what is an eligible green project has developed in the last few years as the EU has published its EU Taxonomy which defines what a sustainable economic activity is across various industries.

"There is much clearer EU guidance now as the EU Taxonomy is being published. That means our clients can showcase to investors that the company is doing the right thing, and is aligned to recognised criteria and standards."

Sustainability has also become a key performance indicator for many companies as the concept of double bottom line companies (a good investment for both financial and sustainability reasons) gains ground.

"Environmental, social and governance disclosures are now as important as the financial or credit metrix for companies," says Mehra.

New EU code to direct investors towards sustainable projects

Mimi Murray

'Any eligible activity that hits relevant key performance indicators can be marked as green'

The EU Taxonomy is a new classification system that will help direct investors towards sustainable projects and activities.

It sets a common standard for defining those projects and performance thresholds for economic activities that significantly contribute to climate mitigation.

The taxonomy operates by assigning key performance indicators or KPIs to an exhaustive list of eligible activities, Lorena Dunne, partner, asset management and investment funds at William Fry says.

"Any eligible activity that meets the relevant KPIs can be classified as green under the taxonomy on the basis that it 'substantially contributes' to one or more of the EU's six environmental objectives and, at the same time, does not significantly harm any of the remaining environmental objectives," she says.

"This dual approach to classification – ie positive impact without a negative impact, is a fundamental aspect of the taxonomy's system and one which tries to ensure that even if an activity has a positive impact on the environment it will not meet the Taxonomy standard if it also impedes the achievement of other EU environmental objectives."

So, to qualify as green under the taxonomy, an activity must have both a substantial positive environmental impact as well as not have a significant negative impact on the environment, both of which can be judged using the taxonomy KPIs.

In the future, the taxonomy will be expanded to set thresholds for contribution to protection of freshwater and marine resources, the transition to a circular economy, and other environmental priorities, says Courtney Lowrance, managing director, sustainability and corporate transitions at Citi.

"As sustainable finance and ESG investing pick up pace, financial market participants (corporates, investors, and banks) need a common definition of sustainable activities. The thresholds laid out in the taxonomy are grouped by economic activity, and financial market participants will be required to disclose their alignment with the taxonomy by December 31st, 2021," she says.

Thresholds in the taxonomy

For corporates that are already subject to the non-financial reporting directive, this means reporting the proportion of their business aligned with the thresholds in the taxonomy. For banks and investors offering financial products, it means disclosing the proportion of underlying investments that are taxonomy-aligned.

"For example, green bonds issued in Europe are now expected to include a statement on how eligible capital expenditure and operating expenses align with the taxonomy. Investors in the green bond will then be able to assess the proportion of investment that is taxonomy aligned," Lowrance says.

In order to assist investors in comparing financial products and identifying whether their investments contribute to environmental objectives, the taxonomy seeks to introduce a common language in the area of sustainable investing and to provide a clear definition of what should be considered to be a "sustainable" investment, Brónagh Maher, professional support lawyer, asset management and investment funds at Matheson says.

Main: The European Parliament building in Strasbourg, France; Above: EU Taxonomy highlighted in a document to mark the importance of reaching the climate and energy targets by 2030 the EU taxonomy for sustainable activities defines the objectives and steps to become carbon neutral
PHOTOGRAPHS: ISTOCK

"To this end, it builds upon and complements the detailed disclosure requirements imposed on financial market participants, which include investment funds, certain insurance entities and credit institutions, and pension product providers by other legislation forming part of the EU's Sustainable Finance Action Plan – that is, the Sustainable Finance Disclosure Regulation," she says.

"The combined effect of the legislation is to ensure that investors are given detailed information in relation to the extent to which a financial product provider takes into account environmental, social and governance (ESG) factors in its investment decisions and policies and the extent to which those investment decisions and policies contribute to environmental objectives.

"This detailed information should assist investors who are keen to pursue sustainable, environmentally-friendly investment opportunities in comparing the financial products available in the market and choosing appropriate products to meet their investment needs."

Required disclosures

The taxonomy regulation, in conjunction with the proposed Corporate Sustainability Reporting Directive, will also require investee companies to make more information available in relation to the sustainability of their activities, which will assist financial product providers in making the required disclosures to potential investors and increase transparency in general in relation to the impact of companies' economic activities on the environment.

At a minimum, the EU Taxonomy Regulation will give investors greater confidence that the green investment products they invest in are indeed green which is a "very welcome development" says Lorraine McCann, director, climate change and sustainability services, EY Ireland.

"It will become increasingly important as the popularity of such investments increase in the coming years in line with the EU's carbon reduction goals. More generally, the hope is that the introduction of a formal categorisation such as the EU Taxonomy Regulation, will help reorientate capital towards sustainable investments," McCann says.

"This flow of capital will further act as an incentive for companies to improve their overall environmental performance – either by upgrading current activities or starting new activities. Mobilising corporates to act in a more environmentally responsible manner is one very necessary step to addressing the global climate change crisis."

Defining the criteria

Conor Holland, director, ESG at KPMG in Ireland says the aim is to prevent "greenwashing" by defining the criteria under which a financial product or activity can be described as "environmentally sustainable".

"The nature and extent of disclosures required will vary based on the extent to which sustainability factors are integrated into the firm's business, and industry," he says.

The taxonomy system includes environmental performance criteria for activities in the sectors that are most relevant for achieving climate neutrality and delivering on climate change adaptation for example energy, forestry, manufacturing, transport and buildings, Dunne says.

However, this is to be expanded to include performance criteria for activities that support other environmental objectives – ie the sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems.

In addition to further green activities, work is also under way to create an EU standard for socially sustainable activities and investments.

Kingspan's €700m 'Planet Passionate Revolving Credit Facility'

Sandra O'Connell

The company has arranged €1.45bn of sustainable debt funding over the last six months

In June Irish insulation maker Kingspan Group completed a new €700 million Planet Passionate Revolving Credit Facility. The new five-year facility, which matures in May 2026, with an extension option for a further two years, replaces the Group's outgoing RCF (€451 million) and acquisition (€300 million) facilities.

The Planet Passionate facility is provided by a syndicate of 10 leading international banks and is to be used for general corporate purposes. The facility has an in-built pricing incentive on the achievement of Kingspan's Planet Passionate commitments and is therefore fully aligned with the wider strategy of the Group.

As a sustainability linked loan that can be used for general corporate purposes, the loan is linked to an agreed set of sustainability metrics, which are a subset of those within Kingspan's ESG annual report. A margin reduction is provided by the lenders if these are met by Kingspan Group.

"We are very pleased to complete this financing with a top tier of international banks, who can support Kingspan in all of our key markets, regionally and globally," said Kingspan chief financial officer Geoff Doherty, speaking after the announcement.

Global leader

"When combined with the green private placement bond of €750 million completed in December 2020, Kingspan has arranged €1.45 billion of sustainable debt funding over the last six months."

HSBC acted as sustainability coordinator, documentation coordinator and tier one lender on this benchmark transaction in the Irish market.

"Kingspan is a global leader in sustainability and started their sustainability journey over 10 years ago. The company has been recognised by MSCI as AA rating, CDP 2020 Climate A list and London Stock Exchange's new Green Economy Mark classification," says Tanya Sexton, director of large corporates, HSBC Ireland.

Kingspan chief financial officer Geoff Doherty

"The Planet Passionate Revolving Credit Facility complements the €750 million 'Green Private Placement Facility' which Kingspan executed in 2020 and was the largest green private placement globally at the time. Kingspan publishes an annual ESG report on its Planet Passionate programme, which outlines their framework and publishes progress on 12 measurable targets across four areas: energy, carbon, circularity and water."

HSBC has had a long-standing relationship with Kingspan over 15 years and has been engaging with management on sustainable finance for several years, she says.

"HSBC provide banking services to Kingspan across several regions they operate in and have gained a detailed knowledge of their business as a result. HSBC is delighted to support them with this next step in sustainable financing," says Sexton.

Financed emissions

HSBC has an ambitious climate strategy and has committed to aligning the financed emissions from its portfolio of customers to net zero by 2050 or sooner.

To help achieve this, it has set a target of providing between $750bn and $1tn of finance and investment towards the transition. Since the beginning of 2020, it has provided $87 billion of sustainable finance and investments and the pace of deployment is speeding up as more and more customers embrace sustainable finance.

It has also set up a dedicated unit called HSBC Ventures to manage a technology venture debt fund that will target investment of up to $100 million for supporting clean tech innovation companies.

In May this year it launched a new philanthropic programme with a target to donate $100 million between now and 2025 aimed at unlocking barriers to finance for companies and projects that tackle climate change and to bring emerging climate solutions to commercial viability and scale.

It has developed a Centre of Sustainable Finance which provides in-depth research and thought leadership about transforming the real economy in response to climate change. It regularly runs webinar and learning sessions within the group and with external clients to promote sustainability. It has also established a dedicated ESG Solutions Unit which provides advice, expertise and financing solutions to clients around the world and has rolled out dedicated sustainability training which all employees are encouraged to access.

"Sustainability is quickly becoming a core part of our DNA within HSBC and it is a topic which is at the forefront of our minds," says Sexton.

Green mortgages are increasingly popular, but do they work?

Edel Corrigan

These products give preferential rates for high BER rating but can they effect real change?

Green mortgages – where borrowers get preferential rates if their home meets a Building Energy Rating (BER) of A1 to B3 – are becoming increasingly common. But are they actually having an impact on climate change?

Going green

Getting a mortgage isn't an easy job for the most part, so no one would want additional hoops to jump through. Luckily, green mortgage rules are similar to those for a regular mortgage, except that the borrower has to meet the additional BER requirement.

Conor Holland, director, ESG, KPMG in Ireland explains. "In most cases, to qualify for a green mortgage, you need to be buying a home with a Building Energy Rating (BER) of at least B3 or higher. In effect, consumers can get a discount on the interest rate applied to traditional mortgage products by 'going green'."

Why do lenders offer green mortgages?

As about 10 per cent of Ireland's carbon emissions come from homes, green mortgages can help combat climate change through a demand for more better-built, energy-saving homes that are easier to heat and keep warm.

Paul Travers, head of energy, climate action, and infrastructure at AIB, says they offer green mortgages to encourage customers "to buy more energy-efficient homes or upgrade their properties through retrofitting, to avail of better lending rates". These mortgages are available to customers who are buying, building, or retrofitting an A1-B3 BER-rated property to live in.

Similarly, Bank of Ireland offers green mortgages and loans to support climate change initiatives. Alan Hartley, director of home buying at Bank of Ireland, says: "The Government's Climate Action Plan has set out a target of upgrading 500,000 older homes to a BER rating of B2 by 2030 and of installing 400,000 heat pumps. Since its introduction in 2019, our Green Home Improvement loan has provided a rate discount for customers to fund energy-efficiency retrofits for older properties."

■ Green mortgage rules are similar to those for a regular mortgage, except that the borrower has to meet the additional BER requirement. PHOTOGRAPH: ISTOCK

Where did green mortgages arise from?

The European Commission's Green Deal has been instrumental in the creation of green mortgages.

Mark Kennedy, managing partner of Mazars, says: "The deal is a plan to save the European economy over the next 20 years and it's got very hard targets set even in the short term to 2030.

"There's a strong economic strand to the deal. It's trying to push all sorts of sectors to be more sustainable and finance is inevitably front and centre, and that is guiding both European Central Bank policies and the availability of funding for different EU structures, directly or indirectly, where the various schemes that will either support industries or can be drawn on as guarantees."

The Green Deal is having an impact on the cost of money to support green projects of all sorts – and mortgages are a subset of that. The savings from a bank perspective are passed on to the customers through the reduced interest rates.

Hartley outlines how the financial sector is also playing its part. "This involves providing sustainable finance – through core financing and advisory capabilities, enabling customers to transition to net zero and develop and deploy low-carbon technologies."

Scaling up

Speaking about whether green mortgages are sustainable long-term, Kennedy says: "In any initiative that you have of this nature where you're dealing with consumers, volume is key. In the world of finance, particularly in the Irish market, there are not too many financial products that have the same sort of volume as mortgages in the long run.

"Almost everybody will buy a house at some point in their life, or they'll live in a house that has been bought by somebody and the funding of that, therefore is a volume product. It's clearly a mass-market product and has a lot of impact as a consequence. That's why it's important."

> **In effect, borrowers can save money on their mortgage, as well as their heating and electricity bills if they choose a sustainable, energy-efficient home**

Benefits to the borrower

Beyond the obvious savings with a lower interest rate mortgage, borrowers will find multiple other benefits, Holland says. "Green mortgages are both financially and environmentally compelling. Aside from the attractive interest rate, they facilitate an easier transition for consumers to a more energy-efficient home, or to renovate their existing residence.

"In effect, borrowers can save money on their mortgage, as well as their heating and electricity bills if they choose a sustainable, energy-efficient home. It provides a practical solution for customers looking for options to make their homes energy efficient."

Travers agrees, saying the savings can be significant. "For example, a two-bed A-rated apartment has an estimated annual fuel bill of €280 compared with €3,000 for a G-rated apartment (Sustainable Energy Authority of Ireland, March 2021), with the obvious impact on carbon emissions."

Long-term impact on climate change

There is a clear customer appetite for these products, says Kennedy. In terms of their impact on climate change, the results still remain to be seen, he says. "We are still at an early stage of all of these initiatives.

"In terms of the carbon footprint savings in reduction that's necessarily prospective from here. I would personally say the impact is positive because it's a mass-market product and it's going to directly address one of the main issues in climate change, which is the construction sector and the sustainability of the houses we live in."

Hartley agrees. "Yes, these products are making a difference, because they are helping to change consumer behaviour. There has been a mass shift in public awareness and behaviour on sustainability."

ESG policies lead to proliferation of green leases in property deals

Leases contain clauses about how buildings should to be managed in a sustainable way

SANDRA O'CONNELL

A green lease is the generic term used to describe a lease for commercial property that contains provisions dealing with energy, environmental, sustainability and social matters.

They are part of wider ESG (environmental, social and governance) and sustainability initiatives that have taken root across the real estate industry.

"There is no prescribed format or exhaustive list of things to be included and it is an evolving concept, but generally speaking green leases contain provisions and obligations on tenants and landlords setting out how the building is to be operated, occupied and managed in an environmentally and socially sustainable way," says Conor Treacy, partner in real estate department at law firm William Fry.

They can include obligations on tenants to maintain a building's sustainable or energy performance certification, and typically provide for both parties to share data and work together to achieve and maintain certain standards.

"You have to do your due diligence and, if you are serious about ESG, you have to look at what the landlord is doing because the only way you can make a difference, either as a landlord or as a tenant, on this front is if all the partners work together," he adds.

The best bet is to opt for a property built (or remediated) to international environmental standards such as BREEAM (Building Research Establishment Environmental Assessment Method) or the LEED (Leadership in Energy and Environmental Design). That way you have independent certification standing over the landlord's claims.

Having such certification is increasingly a tool of competitive advantage as businesses look to lower their carbon footprint. If you're a building owner these days you simply can't expect to land major US multinational, or certain State bodies at home, if your building doesn't align with their values, according to Treacy.

"That's what gets you the tenant, and that's what determines the asset value, and the rental value," he says.

Innovations

Standards such as LEED do not just include things like lighting and heating, but additional elements such as air quality and noise pollution, as well as innovations such as green living roofs, rainfall harvesting. It even includes elements such as how many staff cycle to work, and the space available for them to park their bikes.

Institutional property investors such as pension funds all have very serious ESG policies too, which has also contributed to the proliferation of green leases at the higher end of property transaction values.

These will trickle down to every building over time, predicts Treacy, helped by European building regulations that will start with new developments.

While there is no prescribed standard at present, in the future there will be, he predicts.

In the meantime Ireland's property market is well positioned on that front thanks to the high proportion of US MNCs here. "Many of these US MNCs such as the Airbnbs and the Twitters have very ordered and deliberate policies on things like green leasing. We in Ireland have a chance to be international leaders in this space," he adds.

Green leases have a role to play as part of the wider green financing boom, according to Grit Young, M&A partner, EY Ireland.

For investors leasing returns are generally stable, making them particularly attractive to pension funds. With green leases "you are investing in something that benefits the planet as well", she says.

"People want to understand that they are doing the right thing for the planet, both as individuals and as institutional investors."

The latter are moving to diversify away from brown and polluting sectors, helped by fear of government actions, such as levies which may be coming down the tracks for such polluting activities, which perhaps they hadn't factored into their forecasts previously.

Financial services institutions are worried about the possibility of a financial crisis caused by climate change. If 90 per cent of your property is polluting, that's a poor strategy right now, says Young .

Right projects

Billions of euro worth of green bonds are being raised and although it is a "drop in the ocean" in terms of what is required to combat climate change, finding the right projects to invest in is difficult, she says.

Right now demand far outstrips supply. For tenants vying to secure long-term green leases that might give rise to risk, she cautions. Some green equipment is still relatively immature, and has not had time to be fully tested over time and in use.

"It's really important to do your due diligence beforehand to ensure you are not paying too much," she advises.

Moreover if governments do not move from a financial point of view in the way they are expected to, such assets may not look so good anymore. If Brexit and Covid have shown us anything it's that we really have no idea what is around the corner.

The value of any business is assessed on the basis of its ability to generate cash in the future, and the amount of risk around that cash generation.

Right now a polluting company's cash-generation ability will be significantly greater than that of a greener rival which takes significant steps to mitigate pollution, say Young. However, if you anticipate levies, then your polluting rival's cash-generation prospects will go down while yours go up.

"It would be unwise to overlook the financial dimension. It should be yield plus environmental benefit," says Young. "Sometimes you can forget the yield if the environmental benefit is so great, but you should be thinking of both."

■ For investors leasing returns are generally stable, making them particularly attractive to pension funds. With green leases 'you are investing in something that benefits the planet'

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A new wave of sustainability reporting from new year

Barry McCall

Investors and consumers will be able to assess sustainability and climate credentials

There really is no place to hide for companies anymore when it comes to sustainability reporting. A veritable alphabet soup in the form of the SFDR (sustainable financial reporting directive), the CSRD (corporate sustainability reporting directive) also known as the NFRD (non-financial reporting directive), and the TCFD (taskforce on climate related financial disclosures) will combine to ensure that investors and consumers are able to assess and compare companies' sustainability and climate credentials.

And that's not all, according to Elizabeth Gillam, head of EU government relations and public policy at Invesco. "Up until recently, a lot of the action has been in the financial services space, with the introduction of the sustainable finance disclosures regulation, the sustainable taxonomy and climate benchmarks regulation," he notes.

"A key challenge underpinning these rules was the lack of reliable and comparable data and therefore attention is increasingly turning to companies in order to ensure that they disclose appropriate information to their investors."

The scope has widened of late. "More recently, we have seen policymakers increasingly turn their attention to climate and environmental policies targeting the real economy," Gillam adds.

"In the EU, the EU Green Deal sets out the overall goals to achieve net zero carbon and zero pollution, as well as halting biodiversity loss. To achieve this, the EU has recently proposed a range of policies, such as reforming the emissions trading scheme and introducing a carbon border adjustment mechanism."

The main regulatory changes centre on the EU taxonomy document that comes into force on January 1st, 2022. "This is a considerable document that helps to create a common language and to clearly define what may be considered a green activity within the EU," says Mary Whitelaw, director of corporate affairs, strategy and sustainability at AIB.

"It also calls out additional environmental, social and governance [ESG] reporting requirements for companies. Overall, the taxonomy is a very comprehensive guide as to what can be categorised as a green activity in the EU however there are still some outstanding areas such as whether or not nuclear power should be categorised as environmentally sustainable."

Companies will need to use the EU taxonomy definitions to guide their decision-making in terms of assessing the green credentials of new projects, she advises. "AIB is committed to supporting our customers in transitioning to a lower carbon economy and is well prepared for the changes ahead having already issued a sustainable lending framework to help categorise new lending activity," Whitelaw points out.

"AIB has also issued independently verified green and social bond frameworks that enable the bank to tap the rapidly expanding investor appetite for bonds issued by organisations with strong ESG credentials."

More regulation

Sandra Rockett, director of wealth and corporate distribution with Irish Life Investment Managers, believes we can look forward to even more regulation. "We already know that there will be regulatory changes to ensure that sustainability preferences are included in the customer advice processes and that there is a consistent approach to identify environmentally sustainable activities and investment products which will support customers and investors making investment decisions," she says.

"Going forward I think we can expect governments to raise their climate ambitions and implement policies in the areas of mandatory climate risk disclosures, commitments to structured roadmaps to reduce emissions to net zero and using policy action to shift economic activity and capital flows towards more sustainable business activities," she adds.

"There is no question that the new regulatory environment is having an effect on asset managers and the products they offer," says Waystone executive director Vanora Madigan. "And this is a good thing. It's all about enhancing investor protection and creating a fair playing field. Firms will need to be agile to stay ahead of the changes. The wave of new regulations will have an impact on smaller firms in particular."

The next big change will come in the form of the corporate sustainability reporting directive which comes into effect on January 1st, 2023, and will mean that companies preparing annual reports in 2024 will have to comply with new rules. "It will extend the scope of SFDR reporting to all large companies and listed companies on regulated exchanges in Europe," Madigan adds. "It builds on that directive and increases the transparency of corporate reporting on sustainability performance.

> **The EU Green Deal sets out the overall goals to achieve net zero carbon and zero pollution, as well as halting biodiversity loss. To achieve this, the EU has recently proposed a range of policies, such as reforming the emissions trading scheme and introducing a carbon border adjustment mechanism**

It will apply to all large private companies including family owned businesses."

It removes the previous 500 employee threshold and replaces it with a requirement for companies with 250 employees and a €40 million turnover or €20 million in assets to comply. "It also applies to some SMEs on regulated exchanges but will not come into force until 2026 for them," Madigan adds.

Double materiality

It also introduces reporting requirements on double materiality, the concept that risks and opportunities can be material from both a financial and non-financial perspective. It is now widely accepted within financial markets that climate-related impacts on a company can be material and therefore require disclosure. The concept of double materiality takes it one step further and it is not just climate-related impacts on the company that must be reported but also the impacts of a company on climate or any other dimension of sustainability.

"It will provide investors with more reliable and comparable information," she says. "It will lead to increased costs, but it will also assist companies in meeting increased demand for sustainability information from stakeholders and investors. They will probably have to do that anyway.

"The overall aim is to ensure that companies report the information required by investors. Investors can be sure that it is what it says on the tin. And the taxonomy provides a common language for that. It's similar to food labelling regulations. It will help us all. It will help fund managers allocate to more sustainable investments."

■ The main regulatory changes centre on the EU taxonomy document that comes into force on the first day of 2022.

It might be easy being green after all

Edel Corrigan

The Green Deal aims to transform Europe into climate neutral continent by 2050

The Green Deal is a landmark package worth more than €1 trillion aimed at positioning Europe as a global leader in tackling climate change and achieving wider sustainable development.

It provides a roadmap for all EU countries, including Ireland, to achieve climate neutrality by 2050 covering areas such as climate, energy, circular economy, biodiversity, agriculture, industry and transport, and is enshrined in Europe's first climate law.

Russell Smyth, partner, KPMG sustainable futures, explains: "The EU Commission has pledged to mobilise €1 trillion in sustainable investment over the next decade. This will shift a significant proportion of public and private capital towards investments and reforms that support climate objectives."

Financing the Green Deal

To fund the transition to net zero emissions, the EU needs investment of about €330 billion every year by 2030, Conor Linehan, head of environmental and planning at William Fry and a member of the firm's ESG & Sustainability practice group, says.

"The EU budget is set to play a significant role in reaching these targets, with €503 billion being invested over the next seven years in a range of climate and environmental projects from small individual household energy renovations to large-scale installations of electric vehicle charging networks."

He explains that public funding is not enough. "Private capital markets are needed to bridge the gap in funding and the EU has launched a wide-ranging and highly impactful programme to reorient private investment in support of its Green Deal with a target investment of €279 billion.

"The use of private investment to fund public projects, while novel is not unheard of and, according to the head of the European Central Bank, parallels can be drawn between the private market financing of the Green Deal and the great mobilisation of US capital markets in the late 19th century to fund building of the railroad network in the form of railroad bonds."

How Green Deal impacts Europe

According to Linehan, the Green Deal will finance a host of diverse projects, from the modernisation of public heating infrastructure, supporting the installation of solar panels in private homes and making industrial companies more energy efficient to modernising public electricity supply in EU member states.

"Aside from the direct, and indeed multiple indirect impacts of the Green Deal on public investment however, the private investment sector is also set to be transformed by the EU climate-neutral targets.

"Green capital markets are already well advanced; the EU is the location of choice for green bond issuance, with about 60 per cent of all green senior unsecured bonds issued globally in 2020 originating in the EU and the market is seeing rapid growth – since 2015, the outstanding volume of green bonds issued in the EU has grown almost eight-fold and in 2020 about half of the green bonds issued worldwide were in euro."

■ The Green Deal will finance a host of diverse projects – from the modernisation of public heating infrastructure, to supporting the installation solar panels in private homes.

Ireland's green plans

In Ireland, the funding will be used for sectors that are typically difficult to decarbonise, such as agriculture. Smyth says: "It is likely one of the most difficult sectors of Ireland's economy to decarbonise in a fair and just way. The EU-funded Common Agriculture Policy will aid and support farmers to encourage a move to more climate-friendly farming practices while aligning with the aims of the Green Deal, and the EU Farm to Fork Strategy."

Ireland's recently legislated Climate Action and Low Carbon Development (Amendment) Bill seeks to support the transition to net zero by 2050, aligning with the Green Deal, explains Smyth. This legislation provides a strong message to sustainability-conscious private investors (Irish and foreign investors) that Ireland is serious about its decarbonisation journey. Attracting this private investment is key to realising Ireland's ambitions.