



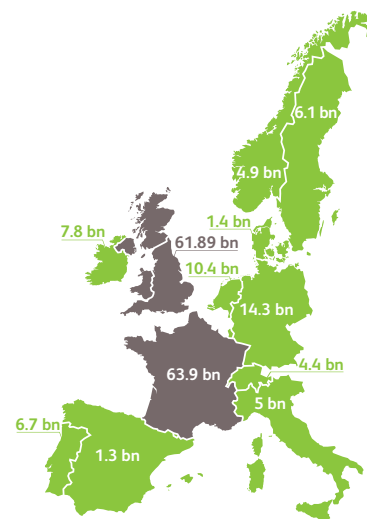
# Sustainable (Covered) Bonds

## Opportunities within the Responsible and Sustainable Investments Market

To achieve the sustainable development goals of the UN, it is estimated that an investment volume of USD 12 trillion per year will be required. Only USD 8 trillion per year will be able to be financed via equity capital. The rest needs to be financed by companies, and one of the key sources for that financing will be bonds. Worldwide, the issuance of sustainable and responsible bonds is already accelerating and growing by double-digit rates annually. In Europe, France and the UK are by far the largest green bond markets as can be seen in the graphic of Europe's green bond issuances. The COP21<sup>1</sup> agreements and the UN sustainable development goals will boost the market, and bonds will be one of the essential sources to scale up financing in Europe and the rest of the world.

The market for sustainable (covered) bonds is still new compared to the overall bond market, but has gained a growing media presence over the last years. The asset class is defined by a set of new market principles that reflects investors' focus on sustainability. As Europe is leading in terms of sustainable assets, there is huge upside potential for labelling and marketing sustainable (covered) bonds. For issuers, it is a welcome opportunity to attract a broader investor base while improving public perception regarding corporate social responsibility.

FIGURE 1: GREEN BOND ISSUANCE 2016 IN EURO<sup>2</sup>



## Turning Bonds into Sustainable Bonds – Approaches to Sustainability

Before thinking about future projects and assets that can be classified as sustainable, it is worth looking at the existing business. According to the climate bond initiative, only 17 percent of all bonds classified as sustainable have been reported as such. In such cases, a bond can be converted **with minimal effort and costs** into a sustainable bond.

Essentially, there are two types of sustainable bonds with different strategies to sustainability in the market. The first and most common type is the bond where proceeds are reinvested in green and/or sustainable projects (e.g. investments in a new electric motor factory for car manufacturers). The second type is a bond with green and/or sustainable assets as underlying for a covered bond or a green securitization. In both cases, comprehensive reporting regarding the sustainable projects and efforts is requested to comply with market standards and to build trust and reliability for potential investors and auditors.

FIGURE 2: SUSTAINABILITY DIMENSIONS



Sustainability can be assessed in four dimensions:

- Social sustainability criteria include **working conditions and human rights** compliance applied at an asset level.
- Ecological criteria evolve around the use of **sustainable materials, energy consumption** and pollution.
- Economic evaluation of sustainability needs to comply with **reporting standards**.
- Institutional sustainability includes measures on implementation of **anti-corruption and bribery** and the compliance with existing cartel laws.

<sup>1</sup> COP21: Conference of Parties – With 'parties' meaning the countries that ratified the UN Framework Convention on Climate Change (UNFCCC)

<sup>2</sup> Climate Bonds Initiative: Bonds and Climate Change – State of the Market 2016

To identify projects or assets that are suitable for a sustainable transaction, companies often use different techniques and selection strategies. The most common strategy focuses on excluding certain non-sustainable assets while others focus on identifying the most sustainable assets within a comparable asset class. By choosing the adequate strategy one determines the sustainability criteria for the asset/project selection of sustainable transactions.

Sustainable (covered) bonds have a direct sustainability impact that can be assessed, measured and reported. For this reason, investors with a focus on sustainability prefer to invest in sustainable (covered) bonds instead of other investment facilities. Nevertheless, the strategy for sustainable (covered) bonds and other investment facilities will determine approaches and processes.

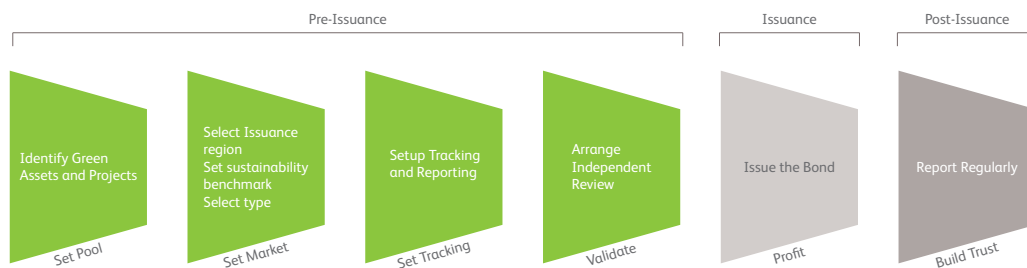
## BearingPoint’s Service for the Implementation of Sustainable Bonds

The issuance process of a sustainable bond differs from the issuance of a classical bond in several steps. During the pre-issuance phase, BearingPoint supports companies in **identifying sustainable asset sources and stock** within the portfolio and helps generate a continuous inflow of future assets and projects. This is key for setting the stage for a solid business case. Afterwards, a first selection of assets and projects is necessary to determine the potential eligible pool. BearingPoint helps further by **defining the eligibility criteria** for the pool and the target markets, choosing the adequate sustainability strategy and determining the tracking and **reporting** measures needed to comply with market standards.

After ending the pre-issuance phase, BearingPoint assists in **structuring the sustainable (covered) bond**. During this phase, local regulators need to approve the sustainability of the bond. Furthermore, BearingPoint helps to develop a **marketing and pricing strategy** for the bond including the identification of sustainability-themed investors and the preparation of the required material for the go-to-market and new product approval.

In the post-issuance phase, BearingPoint can implement and/or service the comprehensive **reporting to investors as well as regulators** and drive efficiency through automation and robotics technologies. It is important to meet the compliance and sustainability standards throughout the entire duration of the bond to reach a status of a trusted and reliable sustainable (covered) bond issuer and to certify the bond transaction.

FIGURE 3: SUSTAINABLE STRUCTURING PROCESS



Sustainable (covered) bonds provide an opportunity to sharpen and strengthen your portfolio against your competitors. As the European market is still developing, early movers can gain an optimal market position. BearingPoint is willing and capable to accompany you throughout the entire process of creating and issuing the sustainable (covered) bond from the preliminary study to the technical implementation and post-issuance reporting. Let’s get started!

### About BearingPoint

BearingPoint is an independent management and technology consultancy with European roots and a global reach. The company operates in three units: Consulting, Solutions and Ventures. Consulting covers the advisory business; Solutions provides the tools for successful digital transformation, regulatory technology and advanced analytics; Ventures drives the financing and development of start-ups. BearingPoint’s clients include many of the world’s leading companies and organizations. The firm has a global consulting network with more than 10,000 people and supports clients in over 75 countries, engaging with them to achieve measurable and sustainable success.

[www.bearingpoint.com](http://www.bearingpoint.com)

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