

Q4 2020 and FY 2020

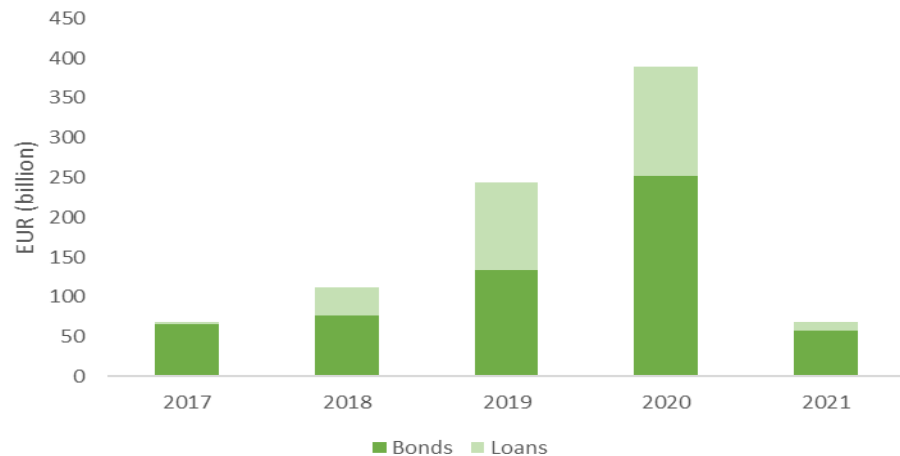
# **ESG Finance Report**

European Sustainable Finance

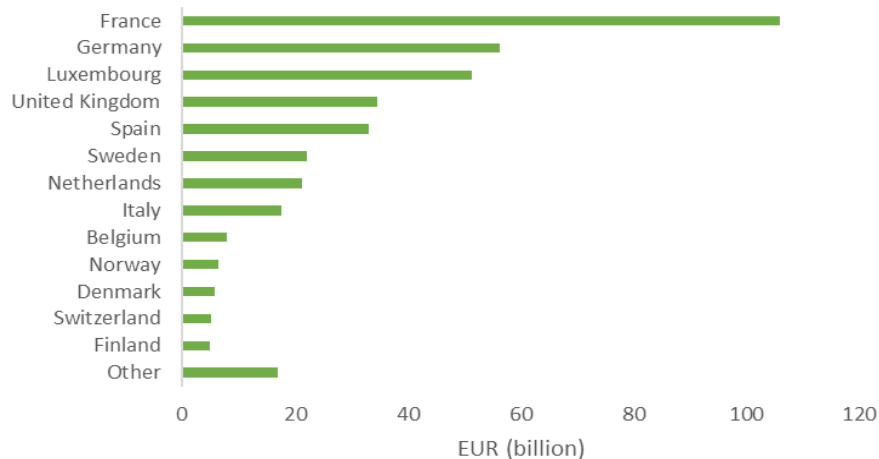


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## 1.1 European ESG Bond and Loan Issuance 2017-20 (2021 Feb.)



## 1.2 European ESG Bond and Loan Issuance by Country: EUR bn FY 2020



Source: Dealogic

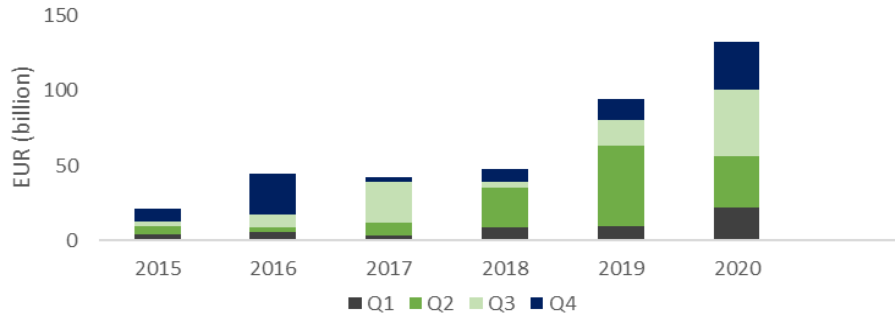
The European ESG bond and loan market experienced substantial growth in 2020, with issuance increasing 58.8% from EUR 245.0bn in 2019 to EUR 389.0bn in 2020, continuing the upward trend seen since 2015 [See graph 1.1].

As of February 2021, European ESG Bond and Loans issuance has accumulated EUR 68.7bn, down 50.8% from EUR 139.7bn within the same time frame last year.

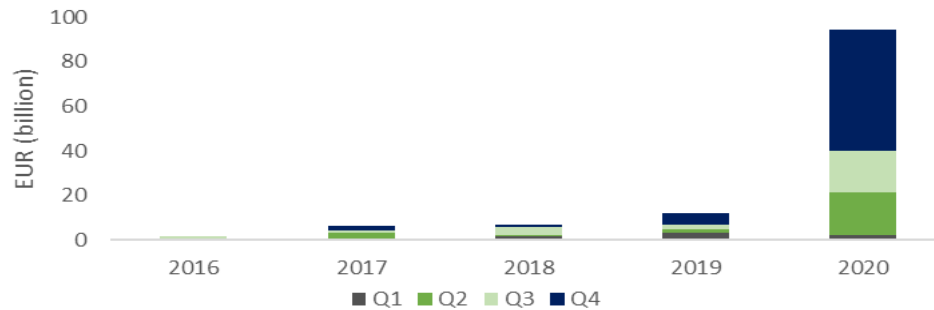
In 2020, the top issuers of ESG bonds and loans were located in France, Germany and Luxembourg (incl. EU Commission), compared to France, the UK and Spain in 2019 [See graph 1.2].

# Key findings

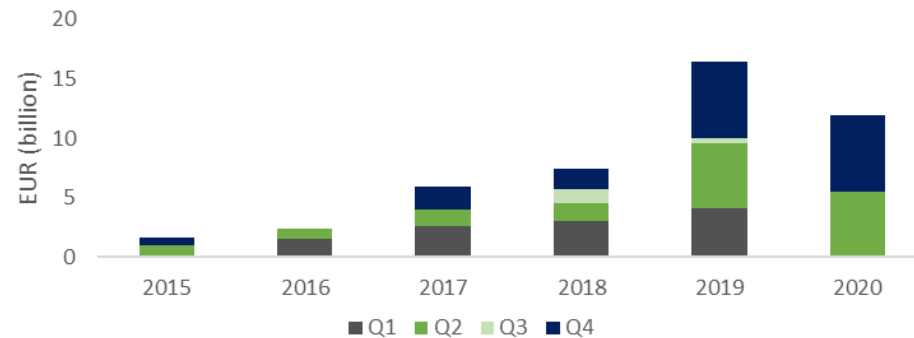
## 1.3 European Green Bond Issuance 2015-20 (Q4)



## 1.4 European Social Bond Issuance 2016-20 (Q4)



## 1.5 European Sustainable Bond Issuance 2015-20 (Q4)



Source: Dealogic

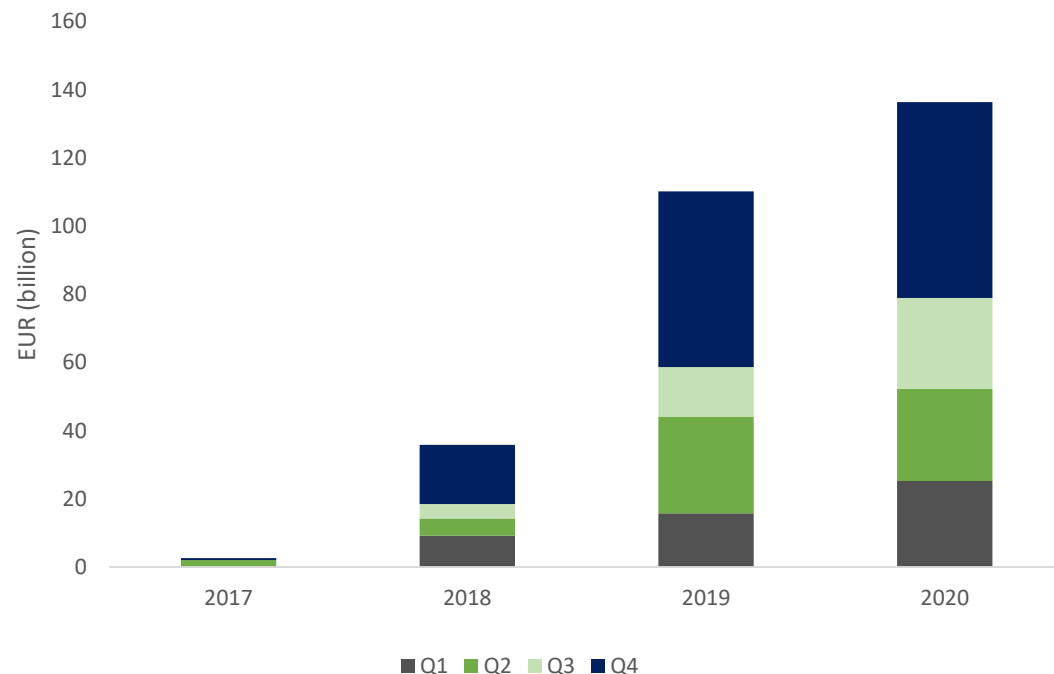
ESG Bond issuance comprises Green, Social and Sustainable bonds and totalled EUR 252.6 bn in 2020 an increase of 88.65% from EUR 133.9 bn in 2019.

- Green Bond issuance increased 41.0% YoY, to EUR 132.5 bn in 2020 from EUR 94.0 bn in 2019.
- Social Bond issuance increased by nearly 700% to EUR 94.3 bn in 2020 from EUR 11.8 bn in 2019.

A series of social bonds equating to EUR 39.5 bn were issued by the European Commission in Q4'20.

- Sustainable Bond issuance increased 36.5% to EUR 25.8 bn in 2020 from EUR 16.4 bn in 2019.

### 1.6 European ESG & Green Linked Loan Issuance 2017-20 (Q4)



Source: Dealogic

ESG and Green Linked Loans increased by 23.7% to EUR 136.4 bn in 2020 from EUR 110.2 bn in 2019.

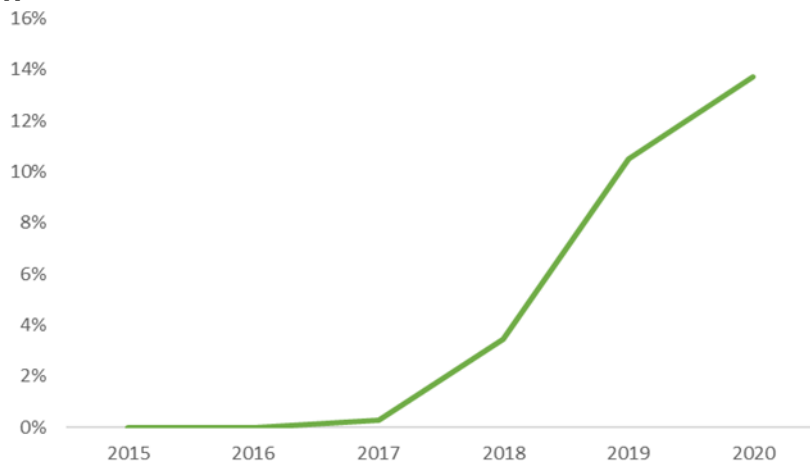
The large majority of ESG & Green linked loan issuance in the Syndicated Loans Market in 2020 were social loans, which represented 84.1% of the total 2020FY loan origination, compared to 15.9% of green loans.

# Key findings

## 1.7 European ESG Bond Issuance as % of Total Bond Issuance



## 1.8 European ESG & Green Linked Loan Issuance as % of Syndicated Loan Origination



\*ESG includes Environmental, Social and Sustainable

Source: Dealogic

ESG Bond issuance equals 8.3% of total European bond issuance, up 3% from 5.0% in 2019. This is comprised of 4.4% green bonds, 3.1% Social Bonds, and 0.9% Sustainability Bonds [See Chart 1.7]

The top 3 issuing countries account for 64.7% of the total ESG Bond issuance in 2020 with France issuing 29.5%, Luxembourg 20.0% and Germany 15.1% of total issuance.

In 2020, ESG & Green Linked Loan Issuance equals 13.7% of total European Loan Issuance [See Chart 1.8] up 3.2% from 10.5% in 2019.

The top 3 Issuing countries make 55.4% of total ESG and Green Linked Loans issuance in 2020, with France issuing 23.1%, United Kingdom 19.1% and Germany 13.3% of total issuance.

# Regulatory Update



2021

Jan

- IPSF announces workstream on a “common ground taxonomy” and “comparison of ESG disclosure frameworks”
- Self-assessment based on ECB guide on supervisory expectations for climate and environmental risks begins
- EU Commission places first EU SURE bond for 2021
- EC requests EU Platform advice on application of Taxonomy to transitional activities
- EC launches consultation on Single Access Point (ESAP) for financial and non-financial information

Q1

- EBA to publish Discussion Paper on Pillar III disclosures

Q2

- EC to adopt first Taxonomy DA (climate change adaptation/mitigation)
- EC to adopt SFDR RTS (Art. 8 & 9, PAI)
- EC to adopt final amendments to investors’ duties DAs (UCITS, AIFMD, MIFID II, IDD, Solvency II)
- EC to launch NFRD revision
- EC to launch Renewed Sustainable Finance Strategy
- EC to launch Sustainable Corporate Governance proposal
- EC to launch EU Green Bond Standard proposal
- Originators may publish ESG information on assets financed by underlying exposures - Sustainable Securitisation
- EC to launch CBAM/EU-ETS proposals
- EBA to publish final draft ITS on Pillar III disclosures
- BoE to launch Climate Biennial Exploratory Scenario

Q3

- ESAs to develop draft RTS on content, methodologies, presentation of ESG information – Sustainable Securitisation
- BCBS to consult on integration of climate risks in Basel Framework
- EBA to publish final report on integration of ESG in risk management and supervision
- EC to launch proposal on ESAP

Q4

- EBA to publish report on sustainable securitisation framework
- EC to adopt Taxonomy DAs for environmental objectives



2022

Q1

- EC JRC to publish final criteria for Ecolabel
- ECB to conduct supervisory review of bank practices, based on 2021 self-assessment
- ECB to conduct supervisory stress-test on climate-related risk

Q2

- Commission to publish draft review of the Shareholder Rights Directive II

Q3-Q4

- Commission to adopt DAs on Taxonomy for remaining environmental objectives

2023-2025

2022-2024

- EBA to launch Discussion Paper on prudential treatment of assets from a sustainability perspective
- EBA to publish Guidelines on ESG integration in risk management and supervision

2025

- EBA to publish final report on prudential treatment of prudential treatment of assets from a sustainability perspective
- HMT deadline for mandatory TCFD-aligned disclosures across the economy

**IPSF:** International Platform on Sustainable Finance

**EC:** European Commission

**EU Platform:** European Platform on Sustainable Finance

**RTS:** Regulatory Technical Standards

**SFDR:** Sustainable Finance Disclosures Regulation

**DA(s):** Delegated Acts

**NFRD:** Non-Financial Reporting Directive

**CBAM:** Carbon Border Adjustment Mechanism

**EU-ETS:** EU Emissions Trading System

**BoE:** Bank of England

**JRC:** European Commission Joint Research Centre

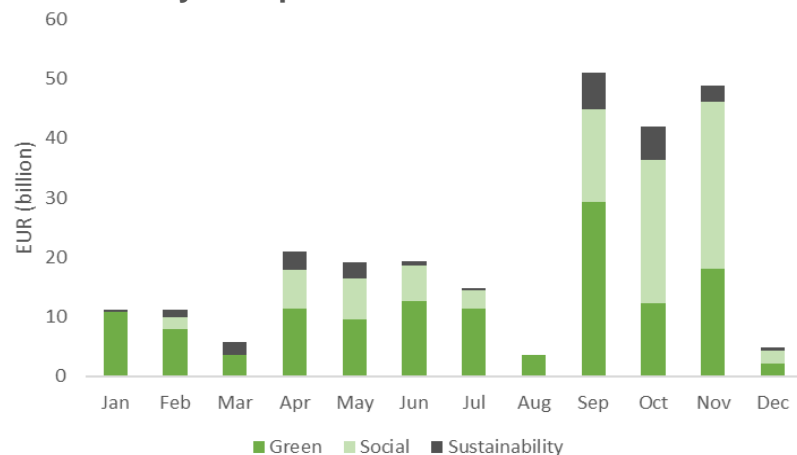
**PAI:** Principal Adverse Impact

**ITS:** Implementing Technical Standards

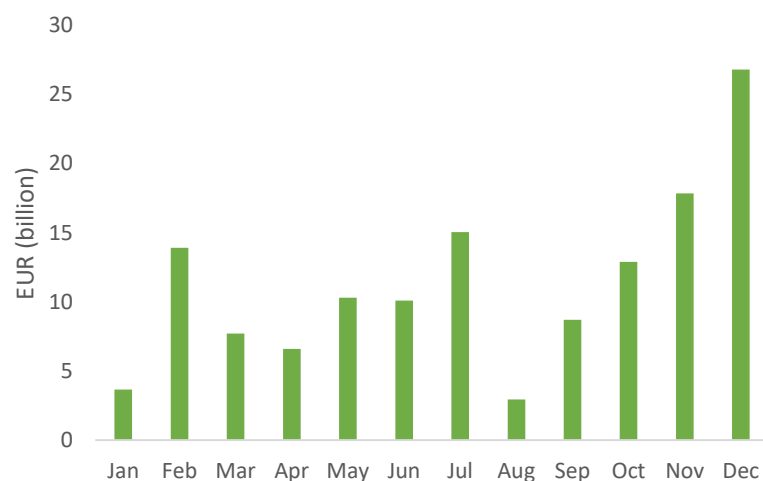
# ESG Bond and Loan Issuance

# ESG Bond and Loan Issuance

## 2.1 Monthly European ESG Bond Issuance FY2020



## 2.2 Monthly European ESG and Green Linked Loan Issuance FY2020

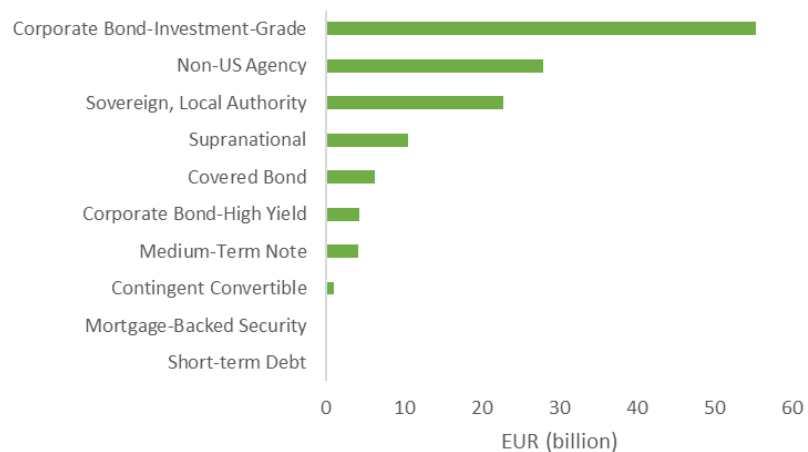


Source: Dealogic

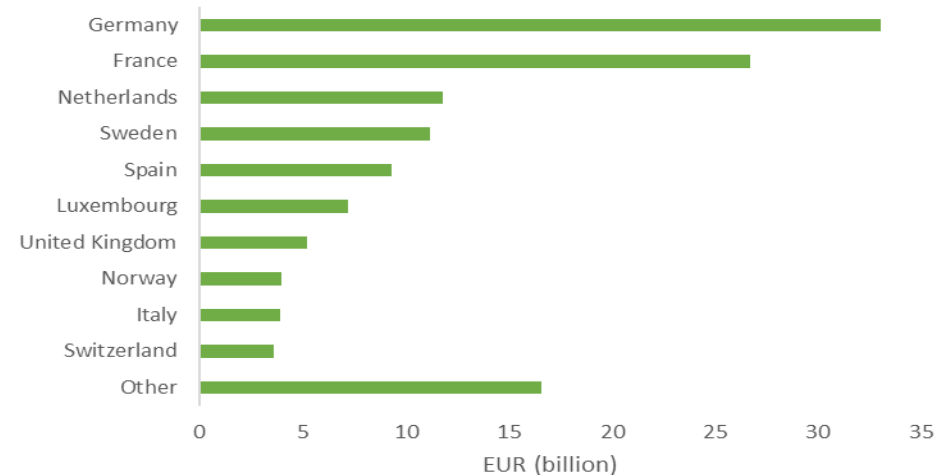
Consistent with seasonal trends, August saw the lowest ESG bond issuance in 2020 at EUR 3.4 bn. March saw a steep decline of ESG bond issuance to EUR 7.2 bn, likely due to the COVID-19 outbreak and resulting market stress. Q4'20 saw the highest issuance amount of the year, driven by a significant increase in social bond issuance.

December saw the highest level of issuance of ESG and Green Linked Loans in 2020, with August seeing the lowest issuance at EUR 2.9 bn.

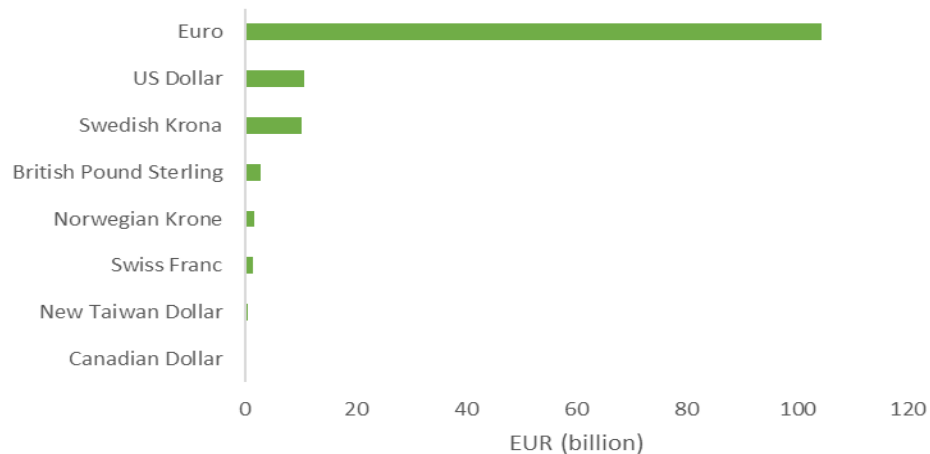
## 2.3 European Green Bond Issuance by Deal Type FY2020



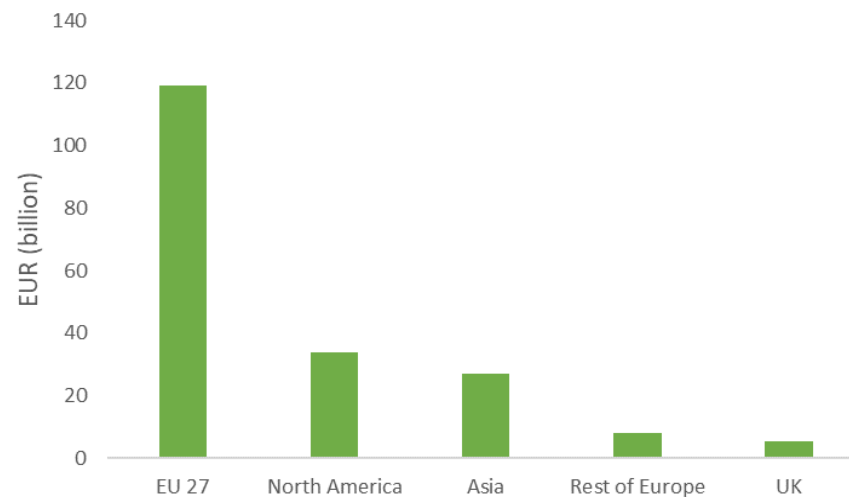
## 2.4 European Green Bond Issuance by Country (top 10) FY2020



## 2.5 European Green Bond issuance by Currency FY2020

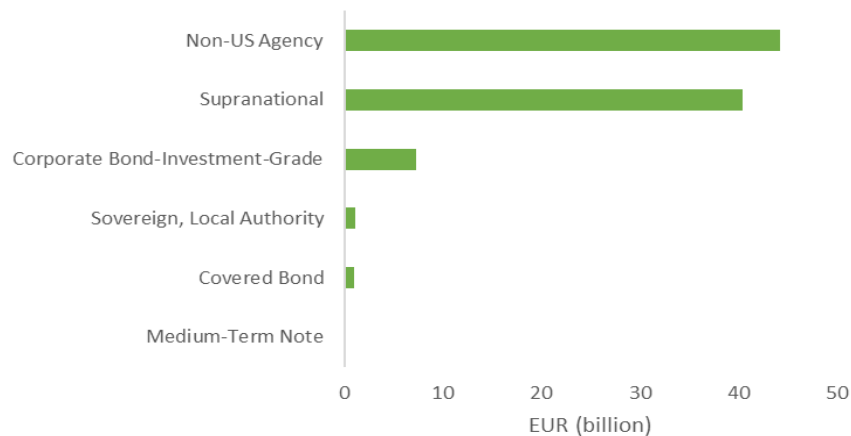


## 2.6 European Green Bond Issuance Global Comparison FY2020

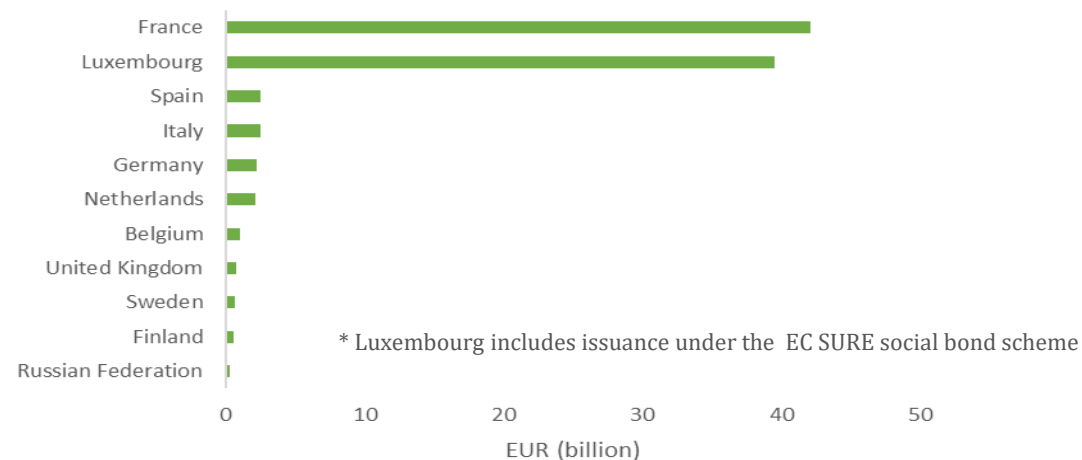


Source: Dealogic

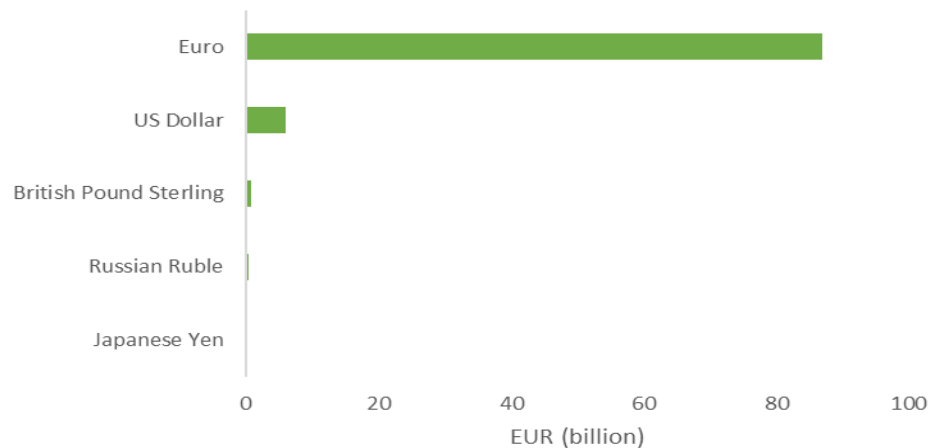
**2.7 European Social Bond Issuance by Deal type: FY2020**



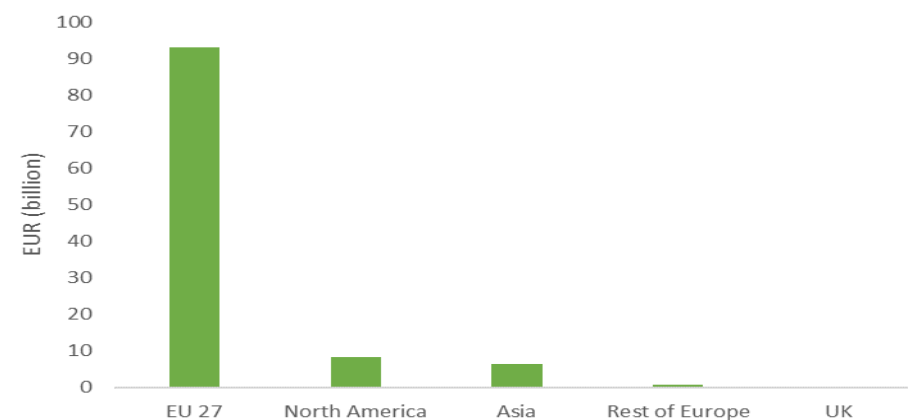
**2.8 European Social Bond Issuance by Country: FY2020**



**2.9 European Social Bond Issuance by Currency: FY2020**

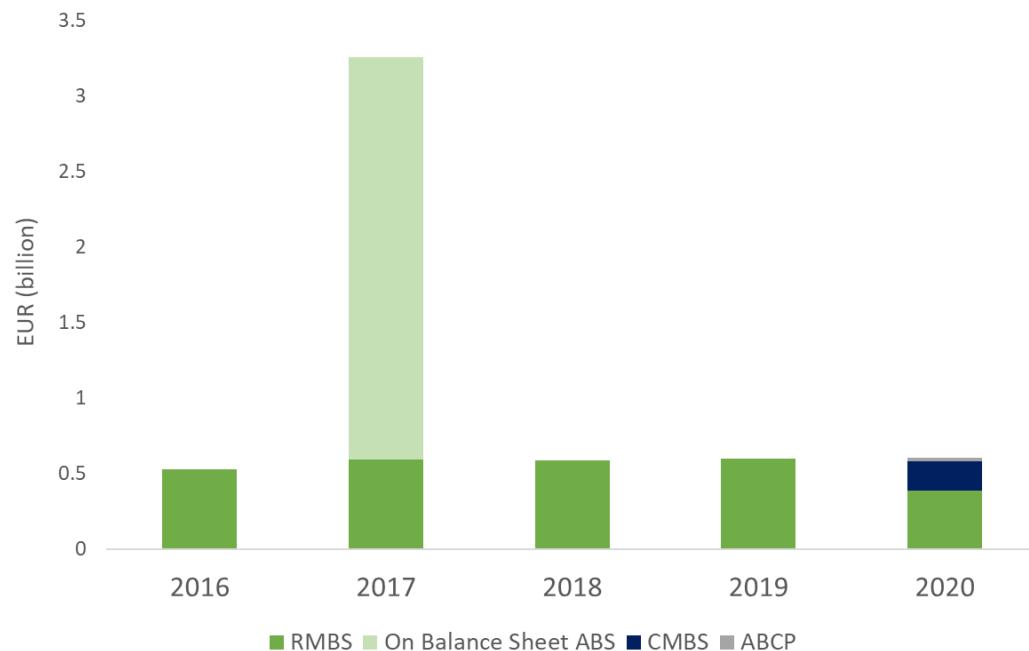


**2.10 European Social Bond Issuance Global Comparison: FY2020**

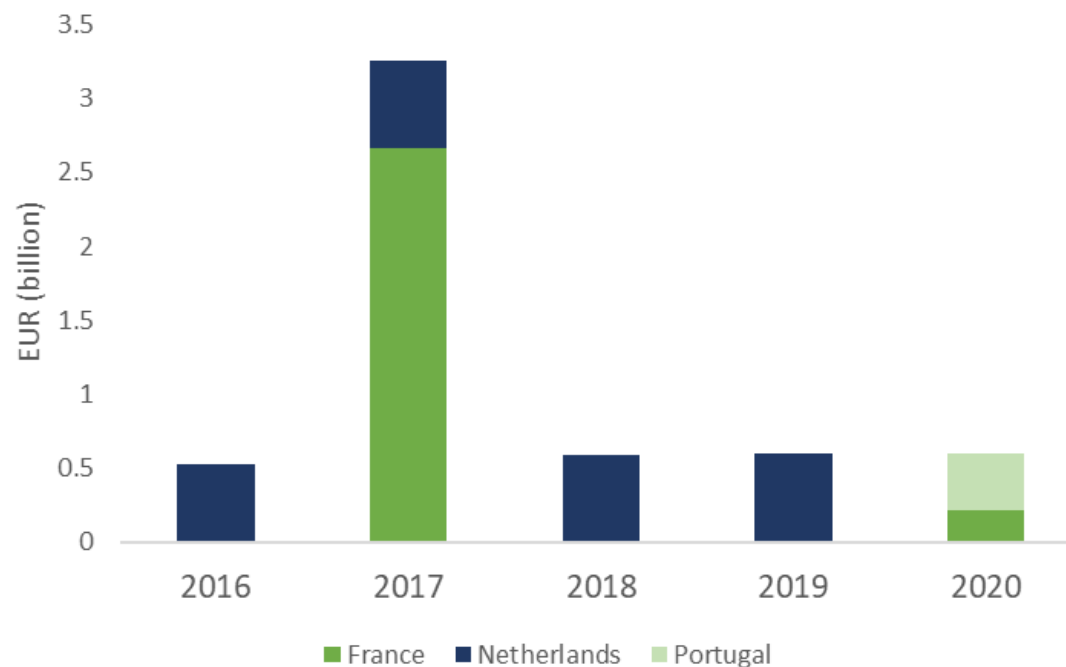


Source: Dealogic

2.15 European Green Securitisation Issuance by Asset Class FY2020



2.16 European Green Securitisation Issuance by Country FY2020



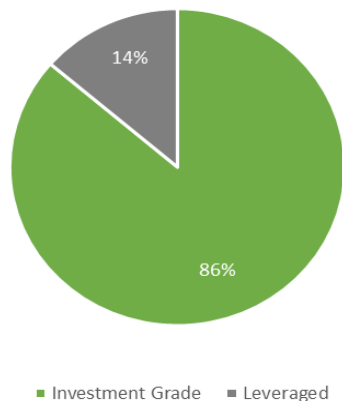
Source: Climate Bond Initiative, Credit Agricole, S&P, and European Data Warehouse

\*The data by country correspond to the location of the bank originator

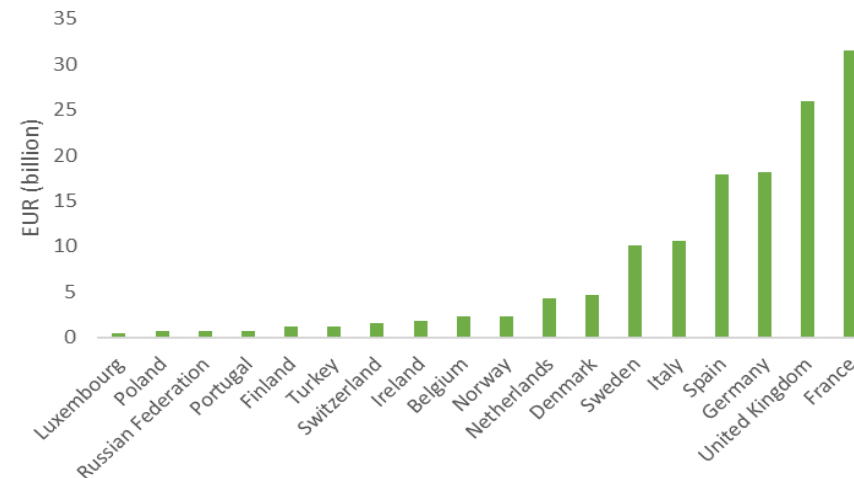


# ESG Linked and Green Loan Issuance

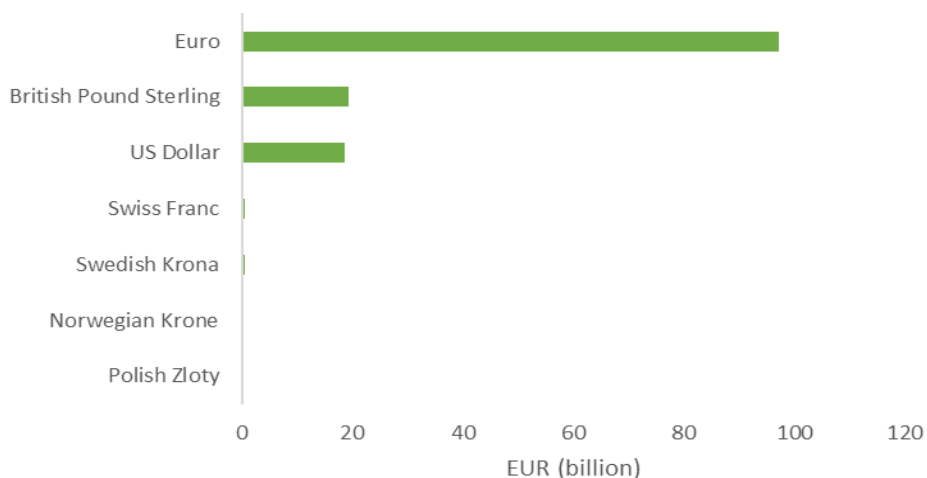
2.17 European ESG linked and Green Loan Issuance by Deal Type: FY2020



2.18 European ESG linked and Green Loan Issuance by Country: FY2020



2.19 European ESG linked and Green Loan Issuance by Currency: FY2020



2.20 European ESG linked and Green Loan Issuance Global Comparison FY2020

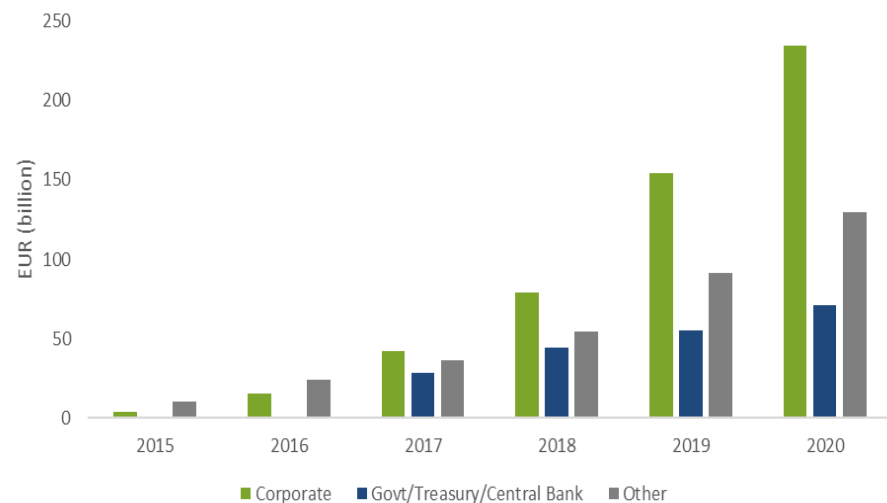


Source: Dealogic

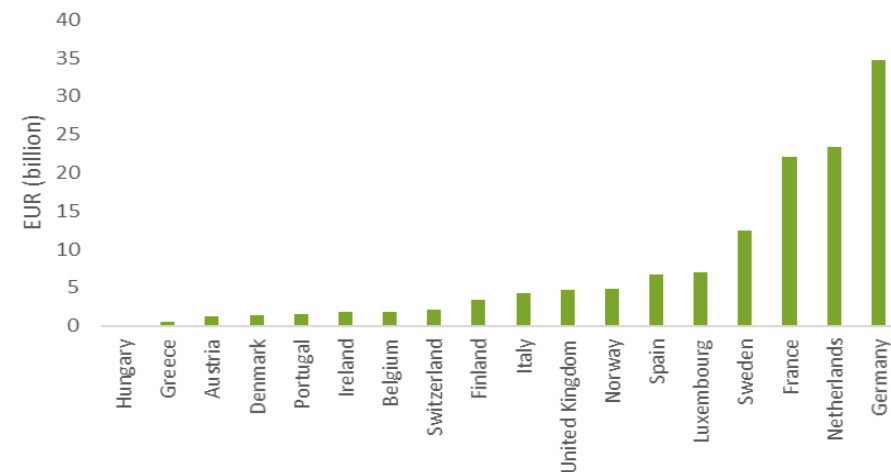
# ESG Bonds Outstanding

# Green Bonds Outstanding

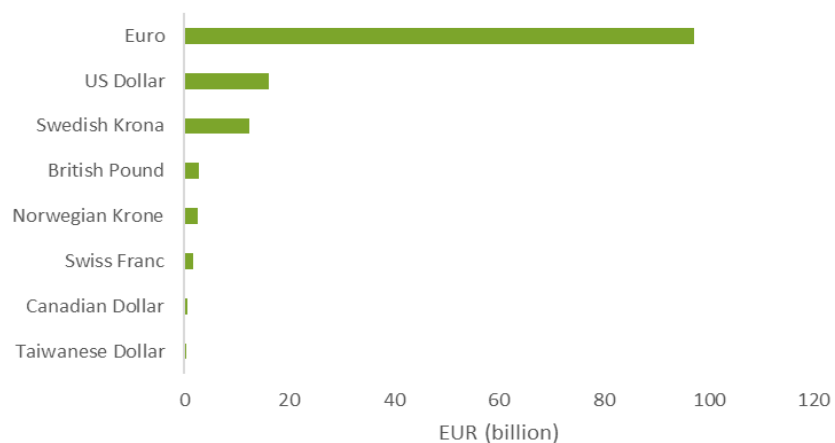
## 3.1 Evolution of European Green Bonds Outstanding FY2020



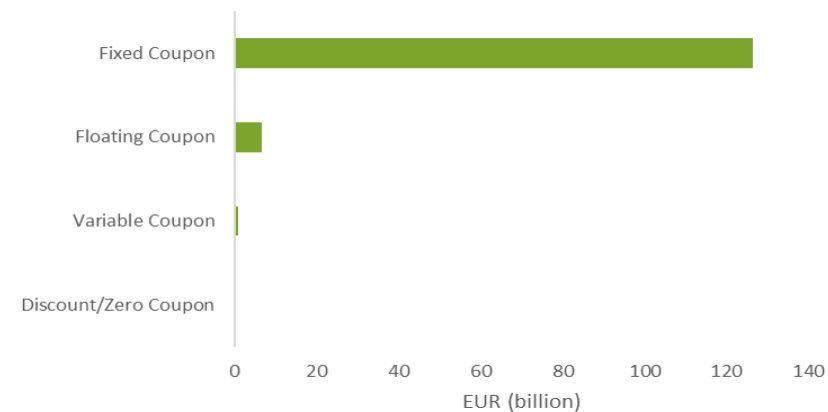
## 3.2 European Green Bonds outstanding by Country: FY2020



## 3.3 European Outstanding Amount by Currency : FY2020



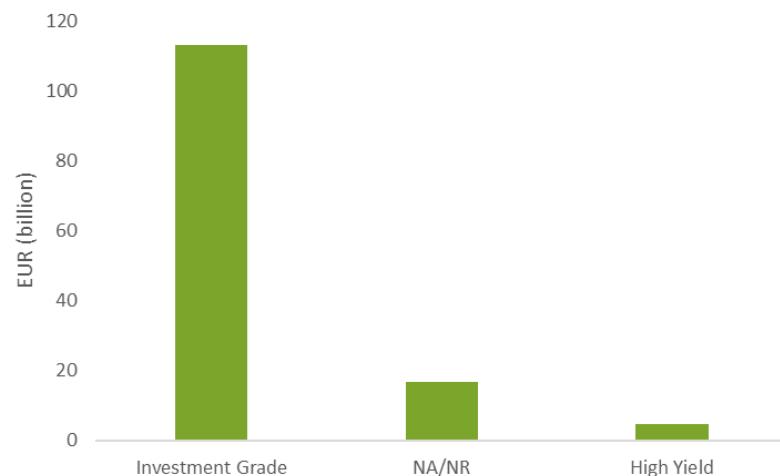
## 3.4 European Outstanding Amount by Coupon Type: FY2020



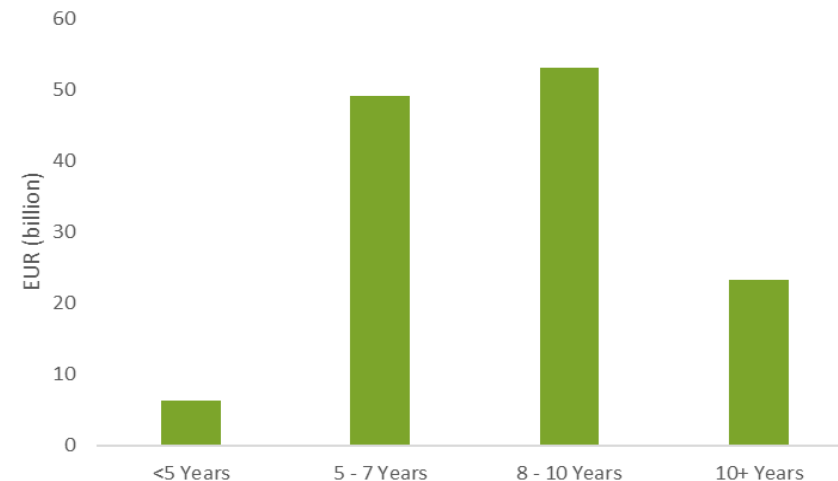
Source: Refinitiv - Eikon

# Green Bonds Outstanding

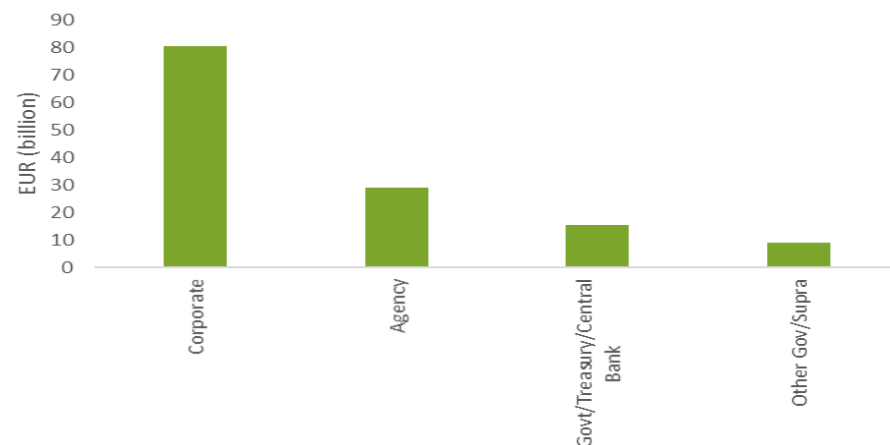
3.5 European Outstanding Amount by Bond Grade: FY2020



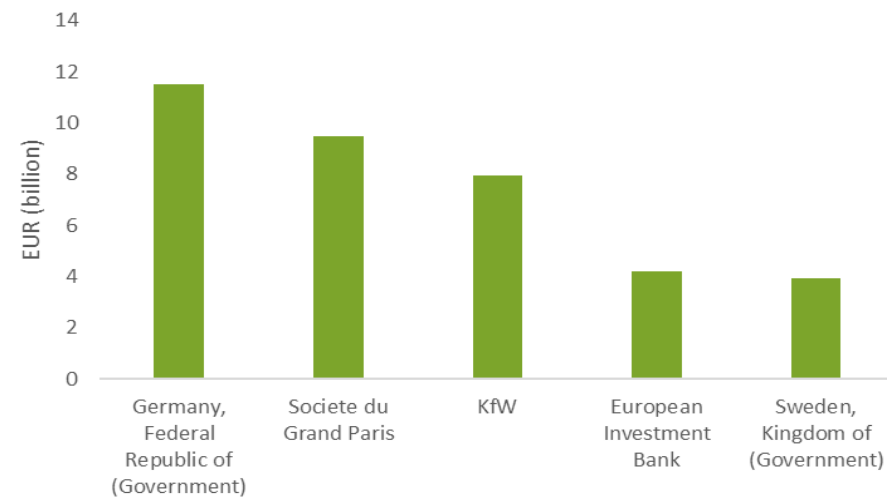
3.6 European Outstanding Amount by Years to Maturity: FY2020



3.7 European Outstanding Amount by Asset Class: FY2020



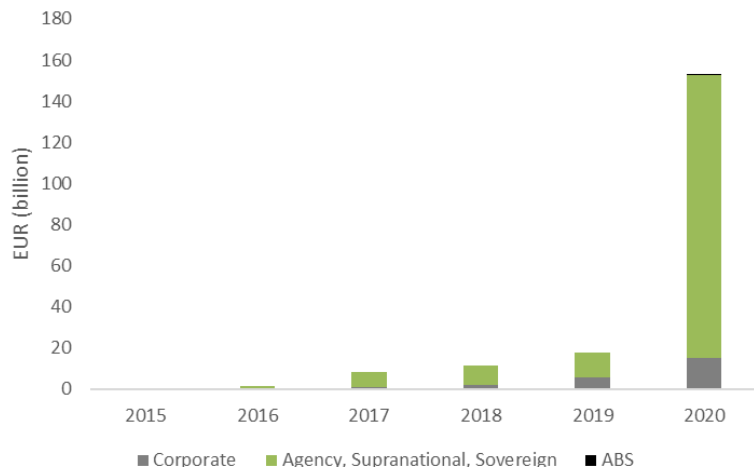
3.8 European Outstanding by Top 5 Issuers: FY2020



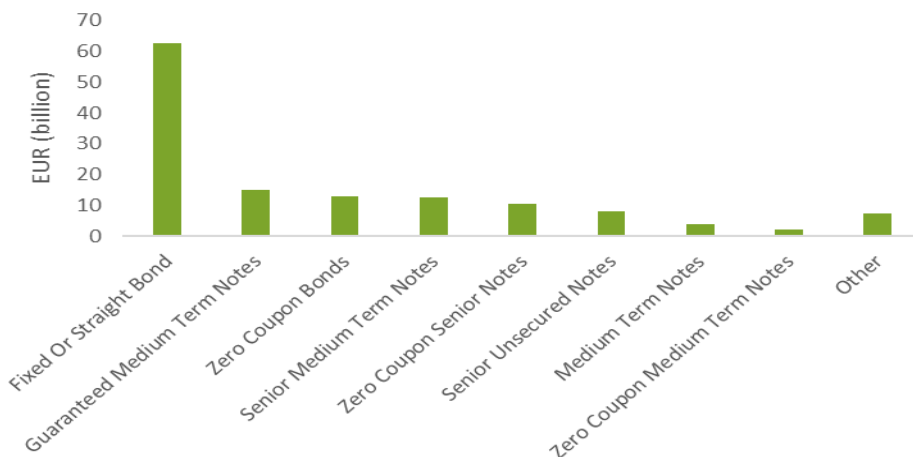
Source: Refinitiv - Eikon

# Social Bonds Outstanding

3.9 Evolution of European Outstanding

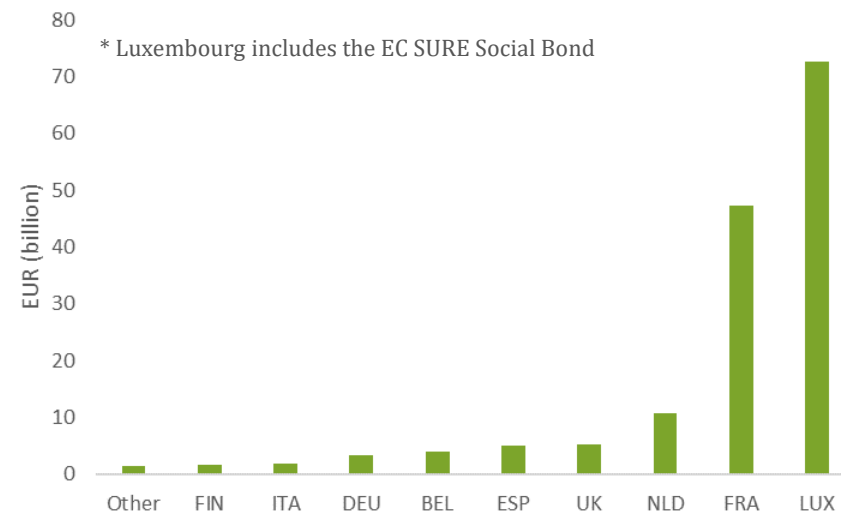


3.11 European Outstanding Amount by Security Type: FY2020

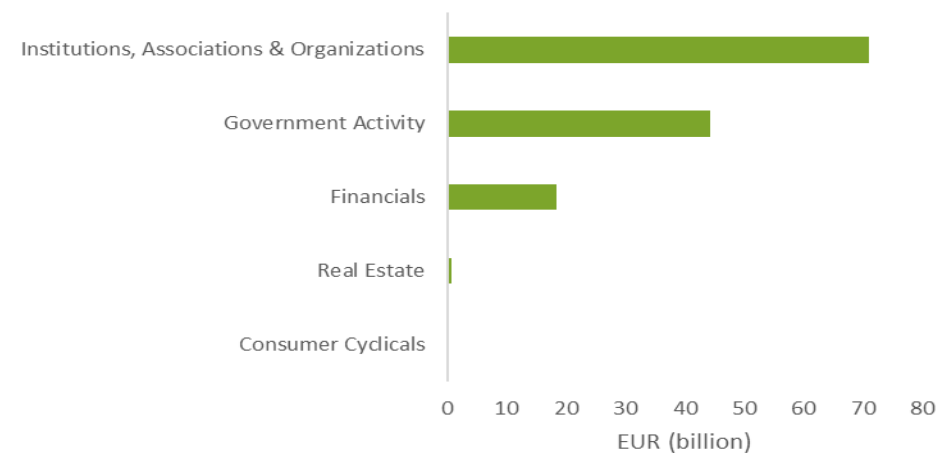


Source: Refinitiv - Eikon

3.10 European Outstanding Amount by Country: FY2020



3.12 European Outstanding Amount Issuer Economic Sector Type: FY2020



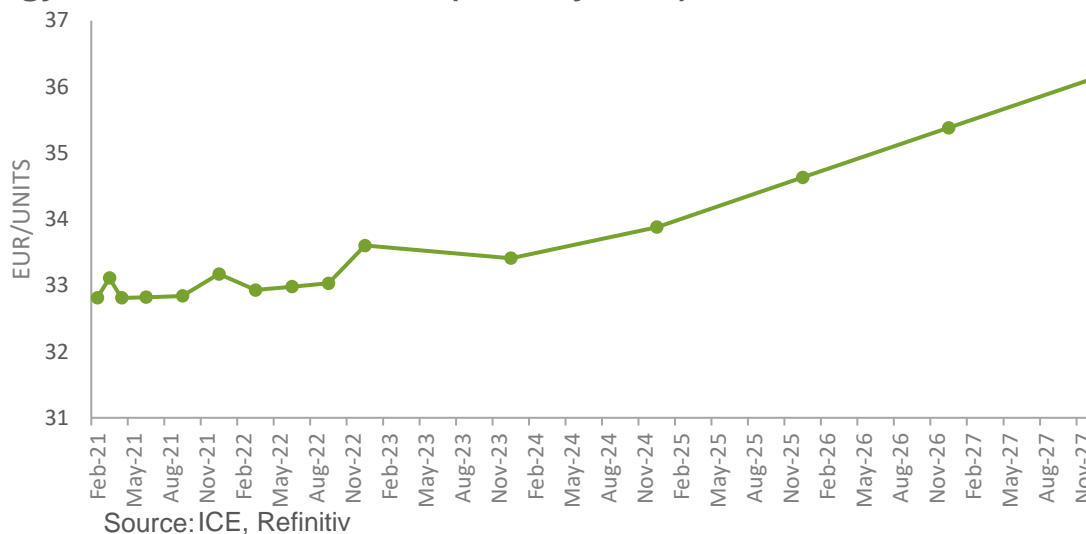
# Carbon pricing, emissions and trading

#### 4.1 EuA price: Euro (€) per Metric Tonne



The European Union Allowance (EuA) price per metric tonne has increased by 21.3% from €24.03 in December 2019 to €30.52 in December 2020

#### 4.2 Forward curve: European Union Allowance (EUA) Electronic Energy Future Chain Contract (January 2021)

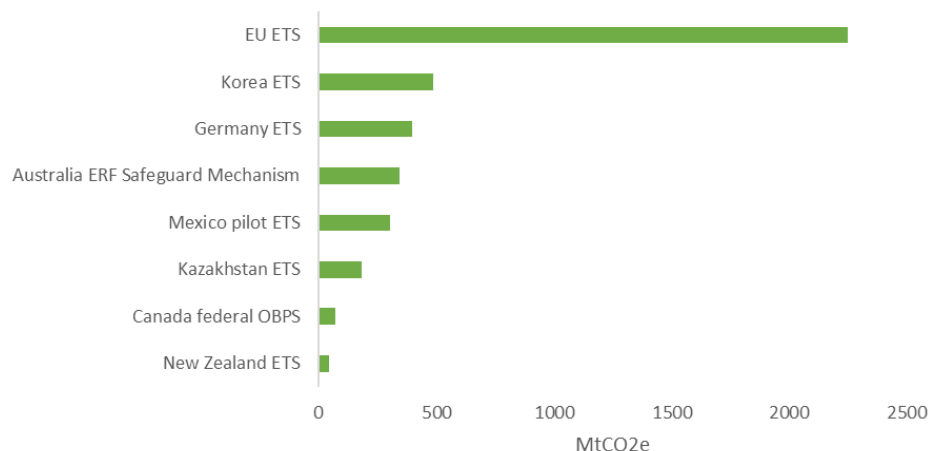


Source: ICE, Refinitiv

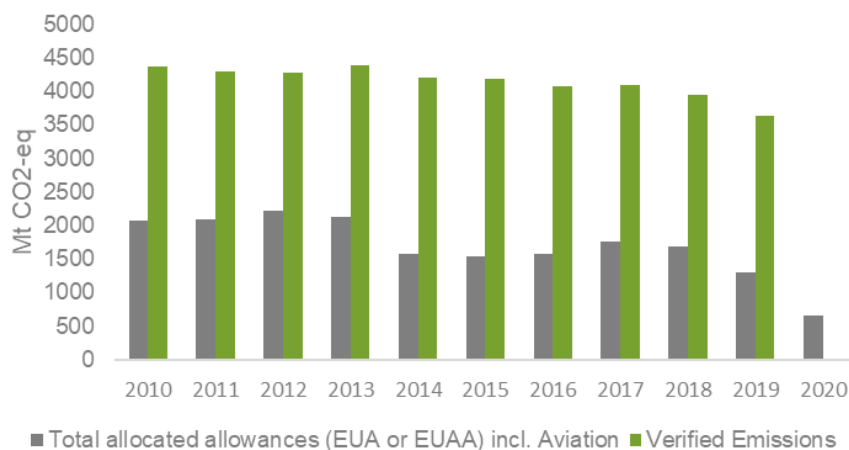


# Measurement of Carbon Emissions

## 4.3 Amount of Emissions Covered by ETS (MtCO2e)



## 4.4 EU 27 + UK Allowance Vs verified Emissions



Source: The World Bank, European Environment Agency

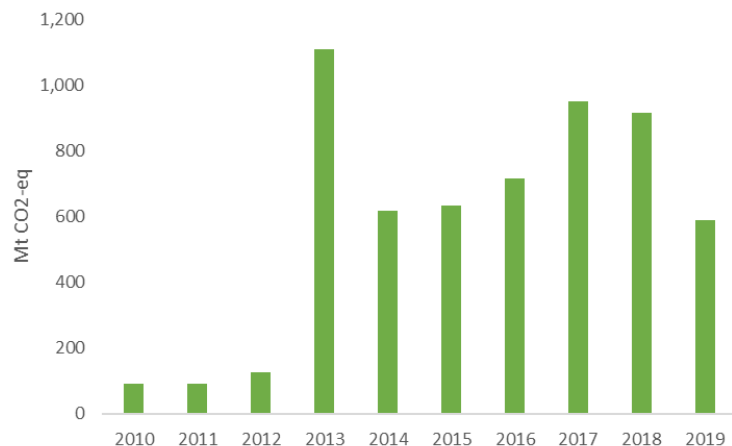
In 2020, The European Union Emissions Trading System (EU ETS) was the largest greenhouse gas emissions trading scheme globally, with 2249.1 Mt CO<sub>2</sub>-eq covered, with a value of \$33.66 billion. The second largest ETS globally is the Korea ETS, with 488.97 Mt CO<sub>2</sub>-eq covered, with a value of \$ 17.97 billion.

Most recently, and not covered in this report, in 2021, China has implemented the largest emissions trading scheme globally with 3454.4 Mt Co<sub>2</sub>-eq covered. The evolution of ETS globally will continue to be covered in future editions of this report.

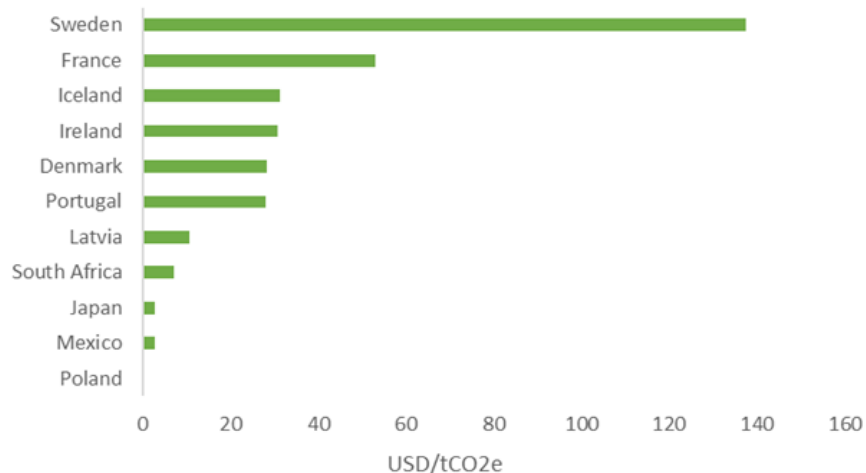
Verified emissions have been more than twice as high as allocated allowances each year since 2010, with the most recent data showing verified emissions to have been 64% higher than allocated allowances in 2019.

# Carbon Pricing – Allowance & Tax

## 4.5 Allowances auctioned or sold (EUAs and EUAAs)



## 4.6 Carbon Tax by Country (latest available-Nov 2020)



Source: European Environment Agency, The World Bank

The EU ETS involves a cap being set on the total amount of certain greenhouse gases that can be emitted by installations covered by the system. The cap is reduced over time so that total emissions fall.

Within the cap, companies receive or buy emission allowances, which they can trade with one another as needed. The limit on the total number of allowances available ensures that they have a value.

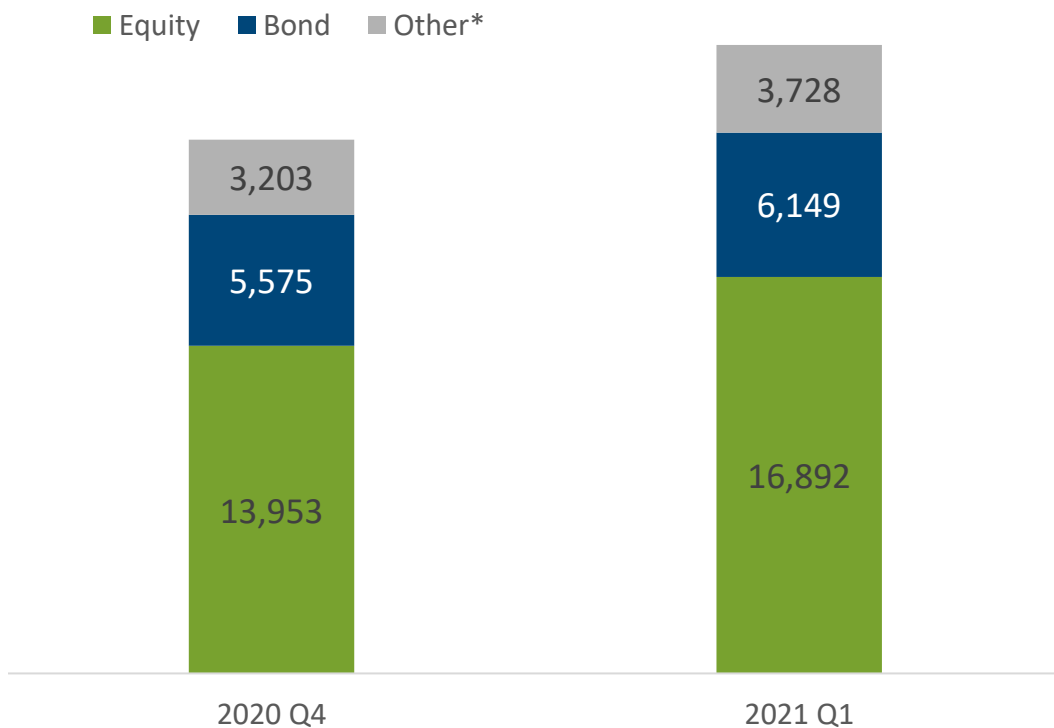
Every year a company must surrender enough allowances to cover all its emission. If a company reduces its emissions, it can keep the spare allowances to cover its future needs or else sell them to another company that is short of allowances.

Total allocated allowances (EUA or EUAA) including Aviation has decreased from 1304.82 Mt CO2-eq in 2019 to 652.24 Mt CO2-eq in 2020

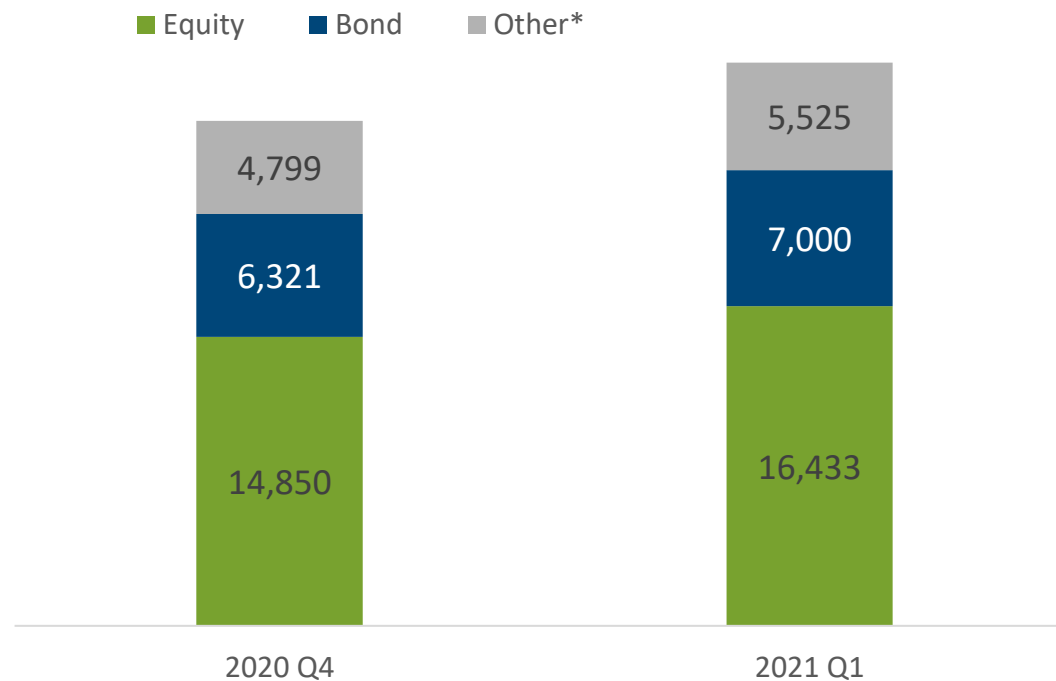
Carbon Tax is another method of carbon pricing. Sweden currently has the highest carbon tax globally at 137.5 USD/tCO2e. The country with second highest carbon tax is France, 62% lower than Sweden, at 52.8 USD/tCO2e.

# Fund Management

5.1 Global ESG Funds by Asset Class (USD bn)



5.2 Global ESG Funds by Asset Class (Number of Funds)

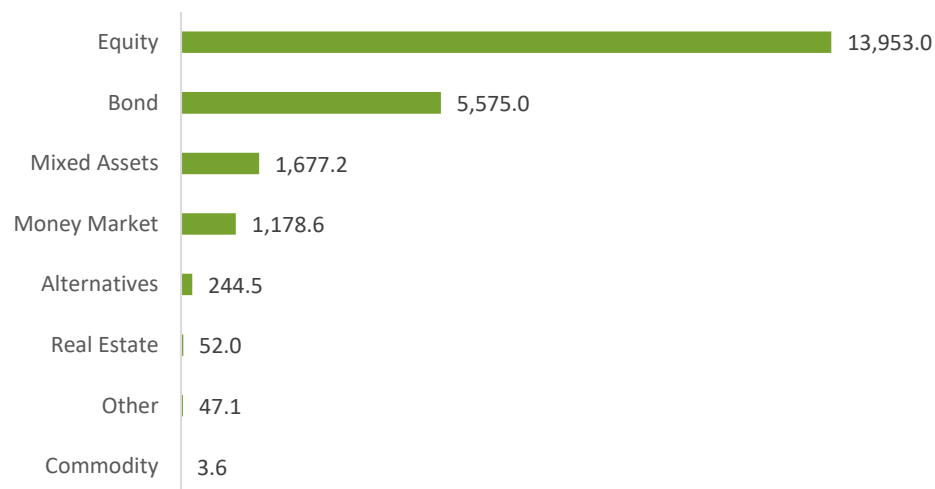


\*Includes Alternatives, Commodities, Mixed Assets, Money Markets, Real Estate, and Others

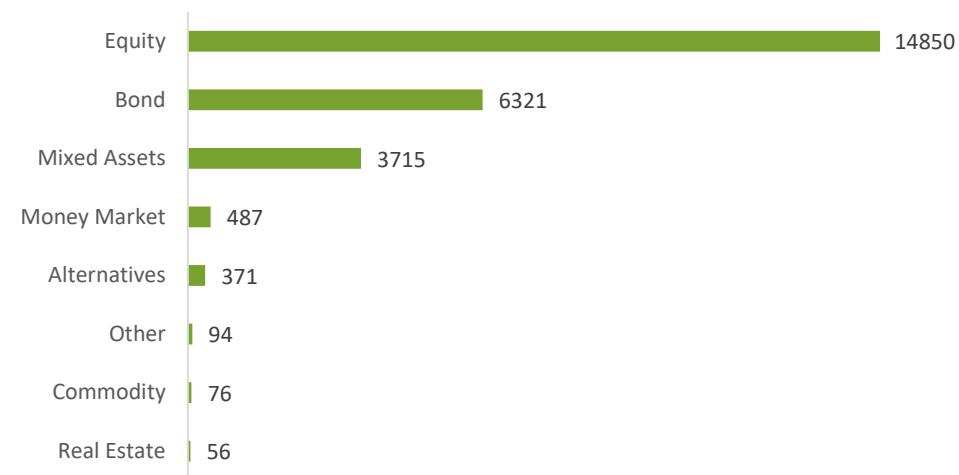
Source: Lipper, Eikon

# Size of Global ESG Funds

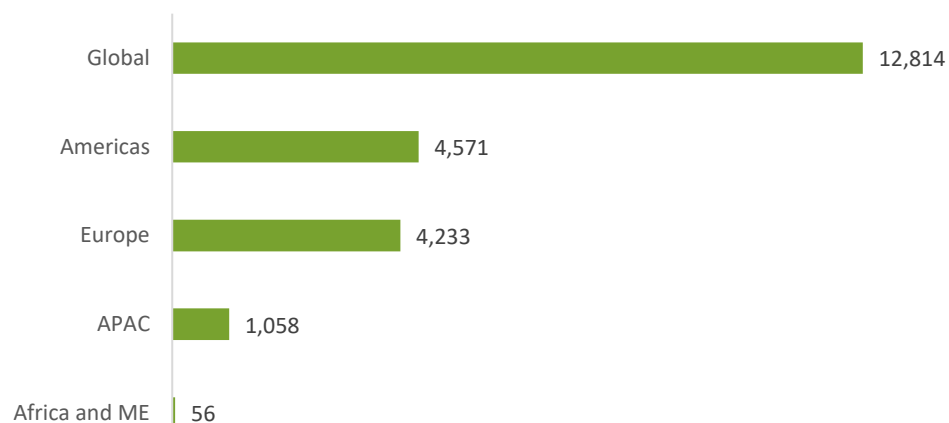
5.3 Global ESG Funds by Asset Class (USD bn)



5.4 Global ESG Funds by Asset Class (Number of Funds)

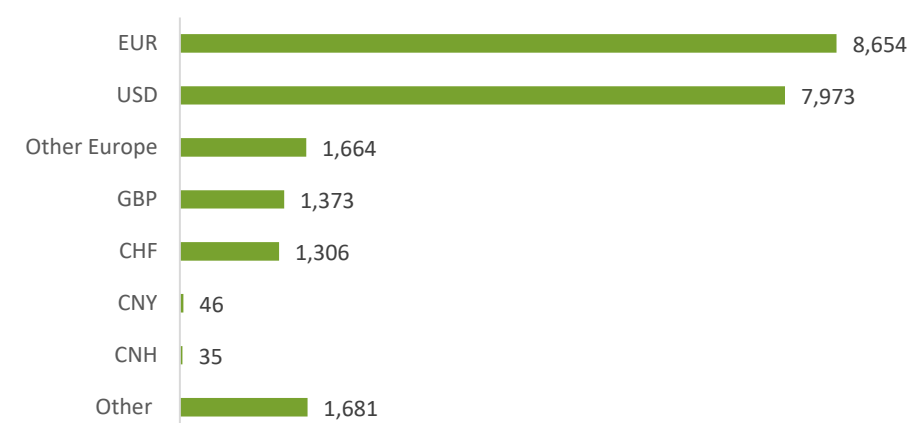


5.5 Global ESG Funds by Geographical Focus (USD bn)



Source: Lipper, Eikon

5.6 Global ESG Funds by Asset Currency (USD bn)



# ESG Bond Trading

# ESG Bond Trading Volumes

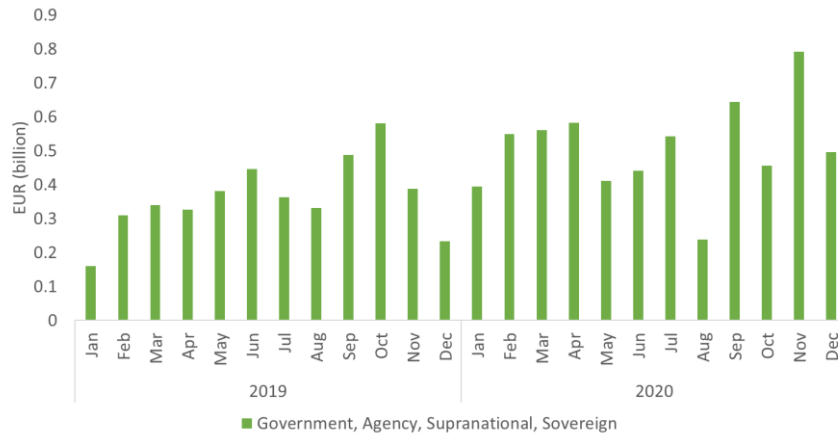
**6.1 European ESG Bond Average Daily Trading Volumes (all issuers)**



**6.2 Average Daily Trading Volumes: European ESG Corporate Bonds**



**6.3 Average Daily Trading Volumes: European ESG Government, Agency, Supranational, and Sovereign Bonds**



**6.4 Average Daily Trading Volumes: European ESG ABS and Covered Bonds**

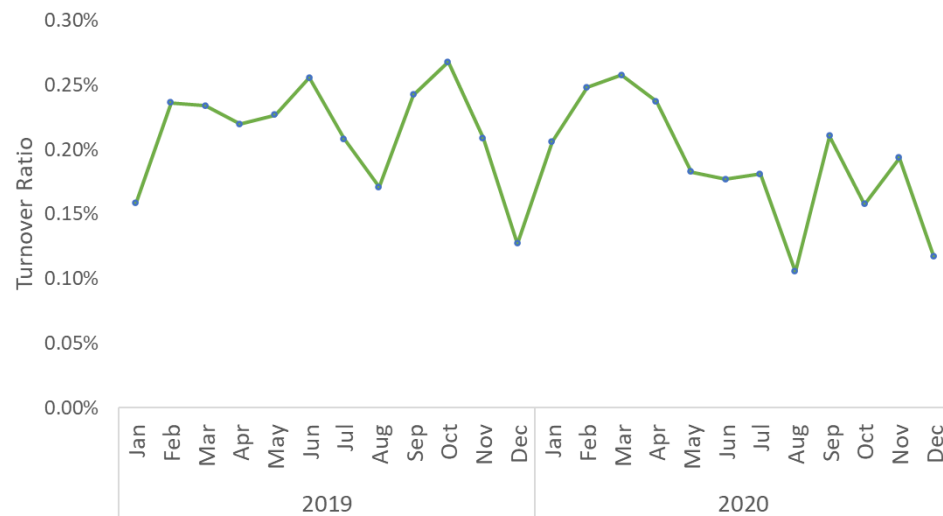


Source: Trax data from MarketAxess



# ESG Bond Turnover Ratios

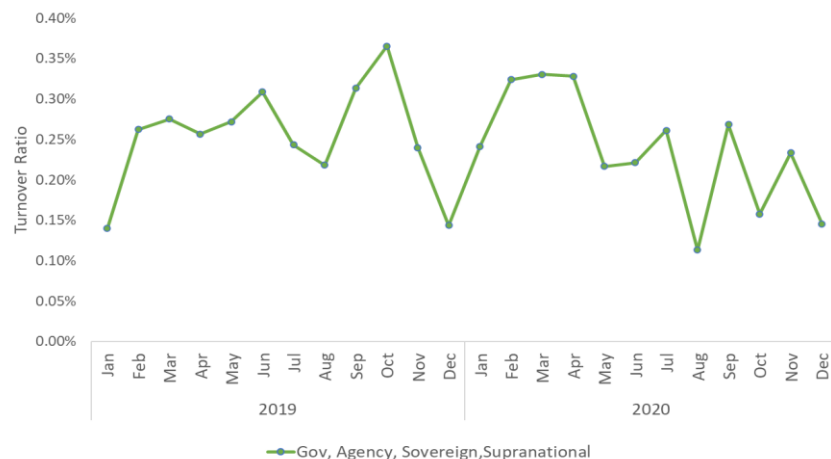
**6.5 European ESG Bond Turnover Ratio (all issuers)**



**6.6 Turnover Ratio: European ESG Corporate Bonds**



**6.7 Turnover Ratio: European ESG Government, Agency, Supranational, and Sovereign bonds**

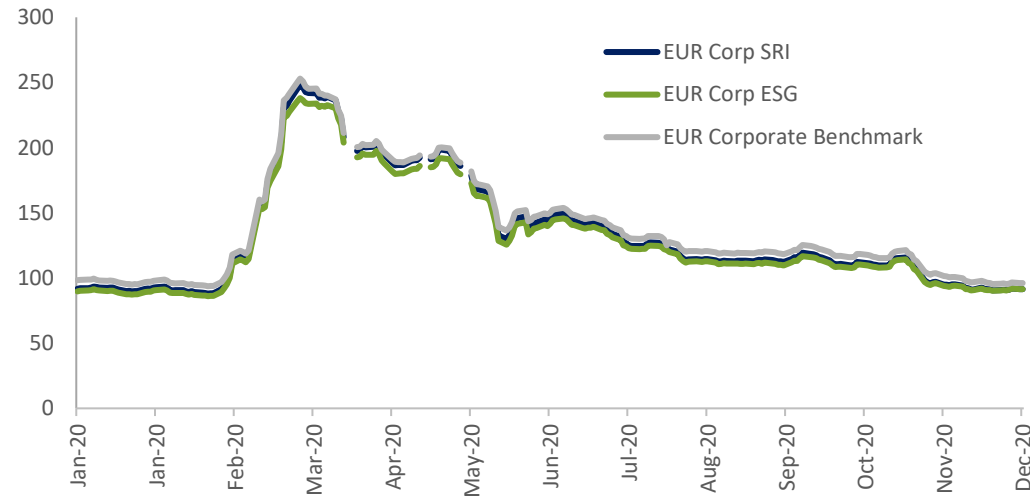


\* Turnover Ratio has been calculated by dividing the outstanding amount by the average daily trading volume

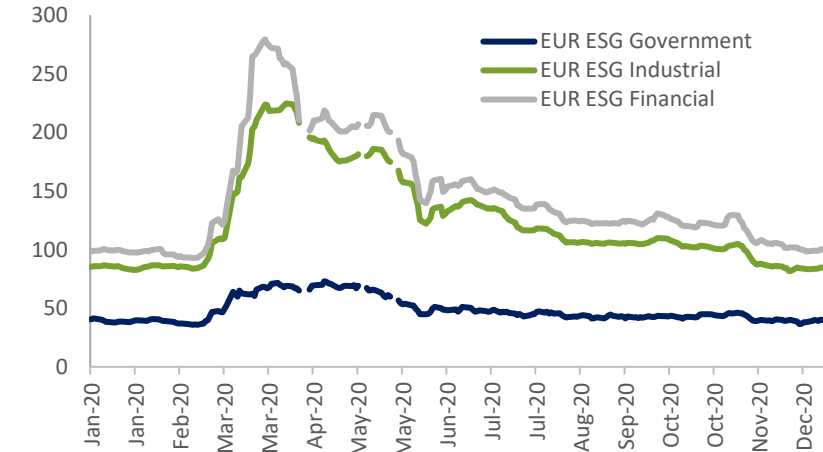
Source: Trax data from MarketAxess

# Valuations

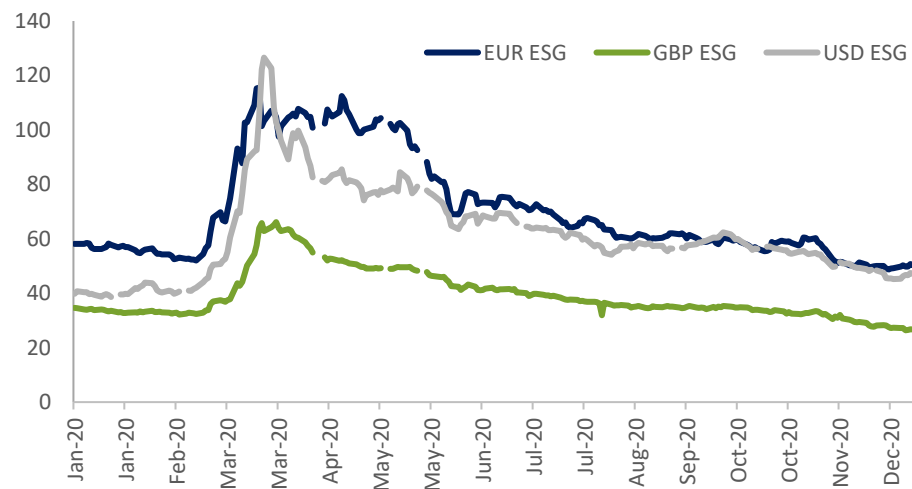
**7.1 ESG and SRI bond spreads (bps)**



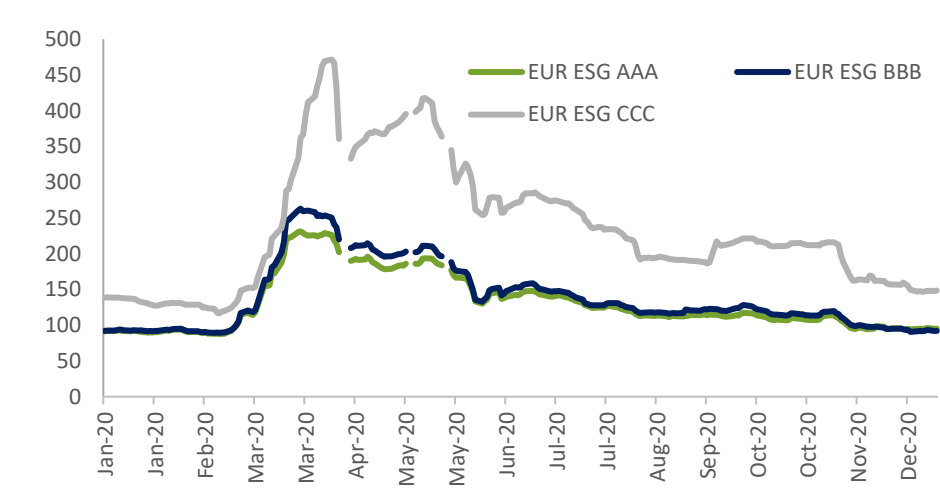
**7.2 ESG bond spreads by sector (bps)**



**7.3 ESG spreads by currency (bps)**



**7.4 ESG spreads by credit rating (bps)**

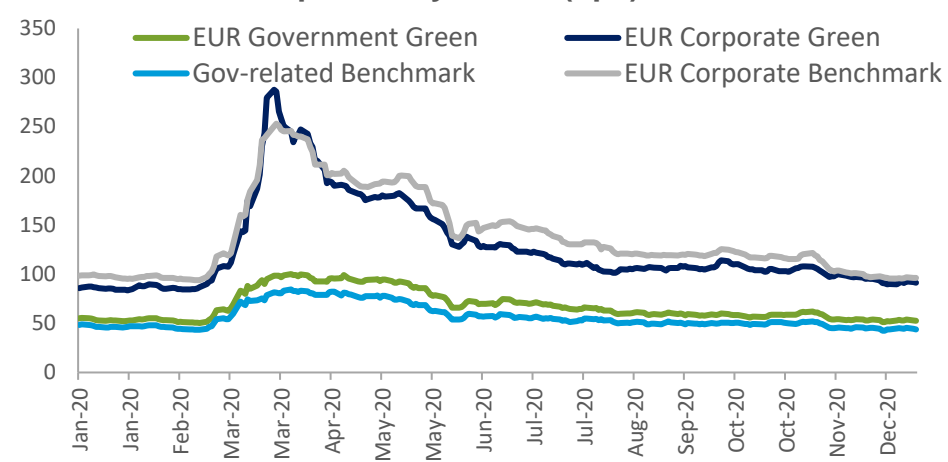


Source: Barclays

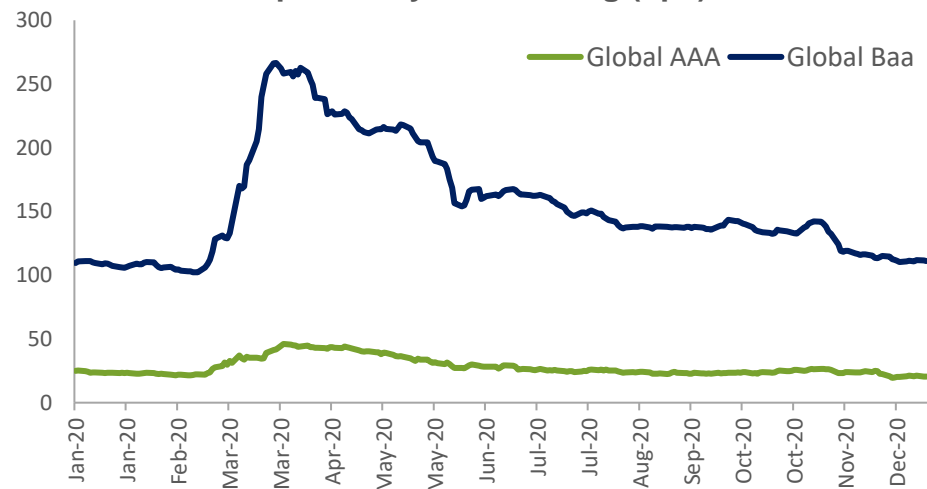
**7.5 Green bond spreads by currency (bps)**



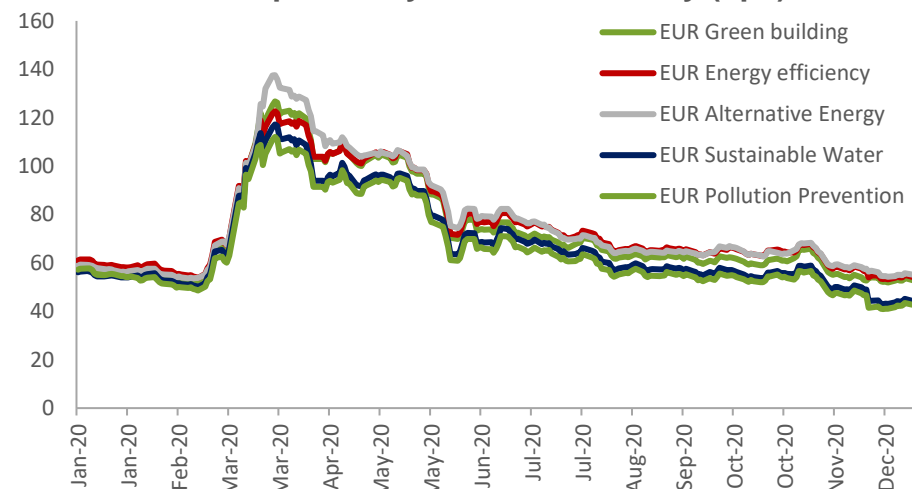
**7.6 Green bond spreads by sector (bps)**



**7.7 Green bond spreads by credit rating (bps)**



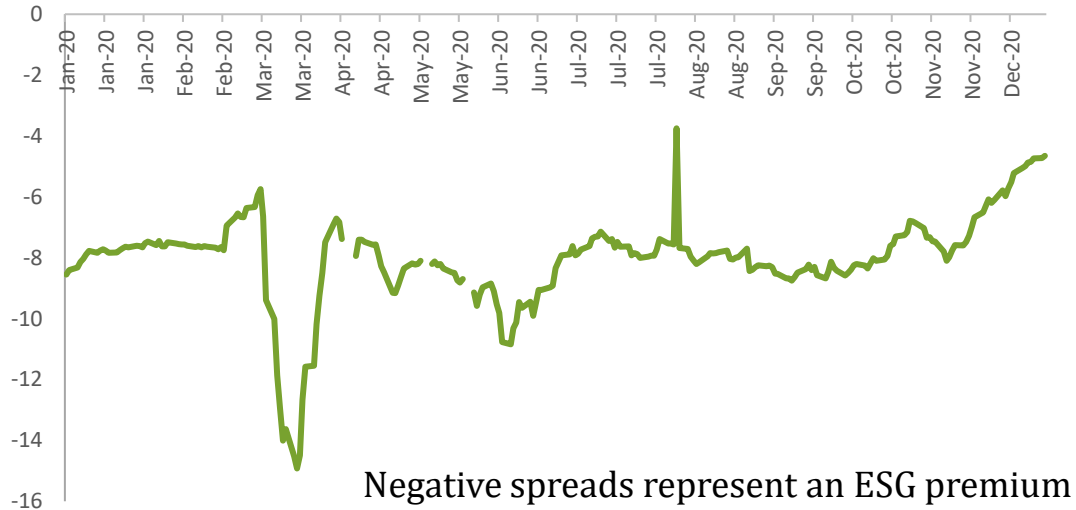
**7.8 Green bond spreads by economic activity (bps)**



Source: Barclays

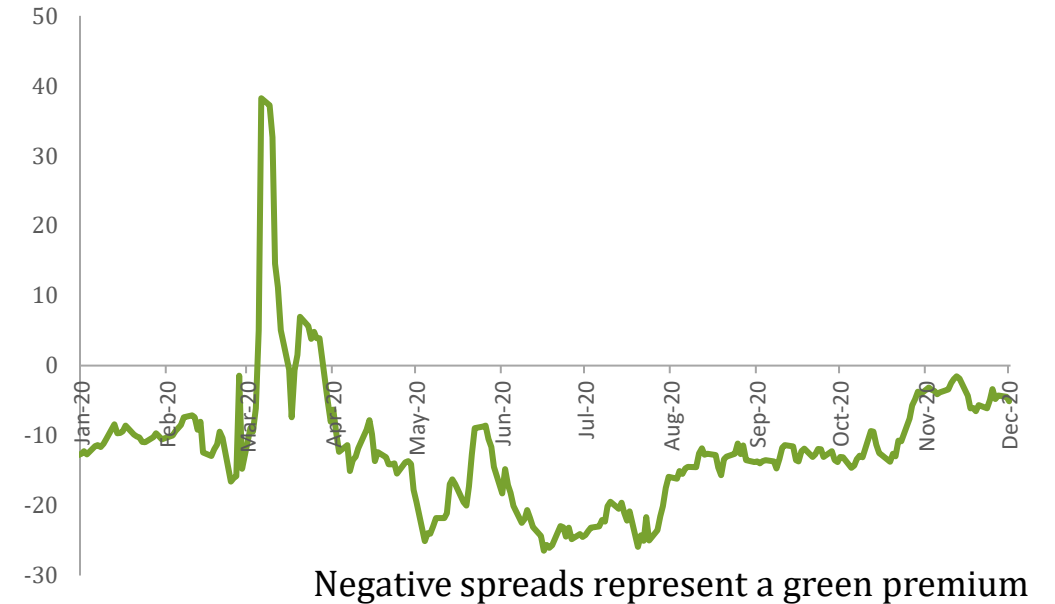
# “Greenium”: spreads of green and ESG bonds against non-sustainable benchmarks

**7.9 Spreads (OAS) of EUR-denominated ESG bonds against non-ESG benchmarks (bps)**



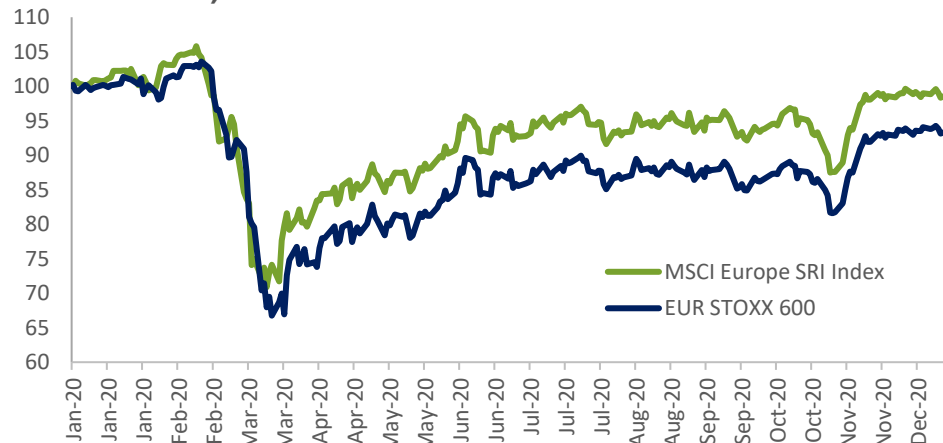
\* Spread between EUR-denominated ESG corporate bonds and PanEuro corporate bonds

**7.10 Greenium: Spreads (OAS) of EUR-denominated corporate green bonds against non-green benchmark (bps)**

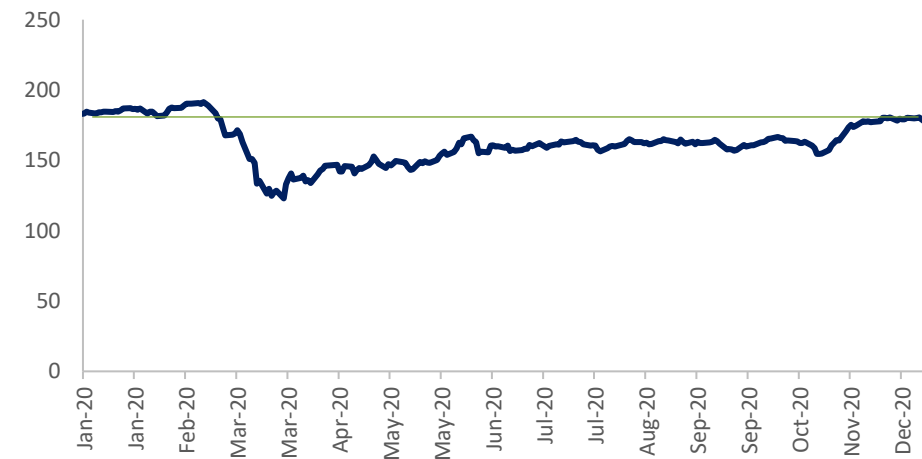


\* Spread between EUR-denominated Green corporate bonds and PanEuro corporate bonds

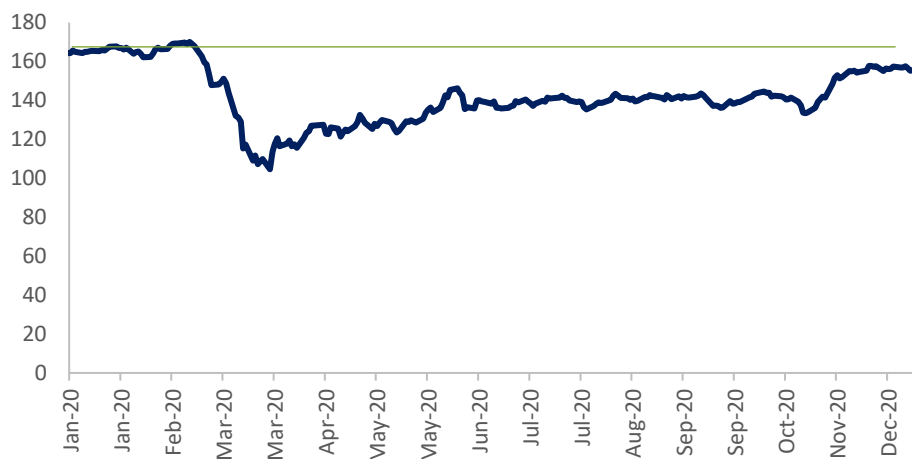
**7.11 MSCI Europe SRI Net Index EUR and EUR STOXX 600 (1 Jan 2020=100)**



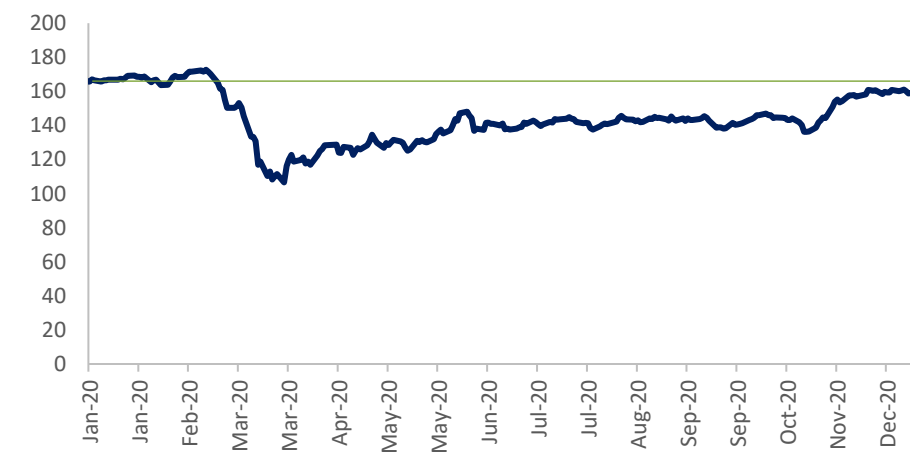
**7.12 STOXX Global ESG Environmental Leaders**



**7.13 STOXX Global ESG Governance Leaders**



**7.14 STOXX Global ESG Social Leaders**



Source: Eikon, STOXX, MSCI

**Green Bonds:** Green bonds fund projects that have positive environmental and/or climate benefits. The majority of the green bonds issued are green “use of proceeds” or asset-linked bonds. Proceeds from these bonds are earmarked for green projects but are backed by the issuer’s entire balance sheet. There are also green “use of proceeds” revenue bonds, green project bonds and green securitised bonds. The Green Bond Principles (GBP) are voluntary process guidelines that recommend transparency and disclosure and promote integrity in the development of the Green Bond market by clarifying the approach for issuance of a Green Bond.

**Carbon Pricing:** Carbon pricing is an instrument that captures the external costs of greenhouse gas (GHG) emissions—the costs of emissions that the public pays for, such as damage to crops, health care costs from heat waves and droughts, and loss of property from flooding and sea level rise—and ties them to their sources through a price, usually in the form of a price on the carbon dioxide (CO<sub>2</sub>) emitted. Carbon pricing can take the form of a carbon tax or fee, or a cap-and-trade system that depends on government allotments or permits.

**ESG:** ESG stands for Environmental Social and Governance. It refers to the three key factors when measuring the sustainability and ethical impact of an investment in a business or company.

**ETS:** Emissions trading system is a market-based approach to controlling pollution by providing economic incentives for reducing the emissions of pollutants. The EU emissions trading system (EU ETS) is a cornerstone of the European Union's policy to combat climate change and its key tool for reducing industrial greenhouse gas emissions cost-effectively

**EUA:** A European Union allowance (EUA) is the official name for Europe’s emission allowances, which in 2008 was defined as the official Kyoto allowance for countries in the EU. One EUA entitles the holder to emit one ton of carbon dioxide or carbon-equivalent greenhouse gas.

**Europe:** Countries included: Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Switzerland, United Kingdom.

**Social Bonds:** Social Bonds are bonds’ whose proceeds are used to raise funds for new and existing projects that tackle a specific social issue and/or seek to achieve positive social outcomes. The reference framework for issuance of Social Bonds is the Social Bond Principles (SBP). The SBP promote integrity in the Social Bond market through guidelines that recommend transparency, disclosure and reporting. Social objectives may include, but are not limited to affordable housing, affordable basic infrastructure, employment generation and sustainable food systems.

**SRI:** Socially responsible investing or SRI, is a strategy that emphasizes not only the financial gains from an investment but also ethical or social change.

**Sustainable Bonds:** Proceeds of Sustainable Bonds are split between green projects and social projects.



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