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FINANCING A MORE SUSTAINABLE FUTURE

Sustainable finance is the provision of finance to investments taking into account environmental, social and governance considerationsⁱ. The recent growth in sustainable finance is seen by many experts as a response by governments seeking to comply with and reach the targets set by the Paris Agreement (a legally binding, global agreement on climate change as agreed in Paris on 12 December 2015). Some other reasons attributed to the growth in sustainable finance (from both an Irish and EU perspective) include:

- ▣ **EU targets:** the EU target of reducing EU-wide CO₂ emissions by 40% by 2030ⁱⁱ.
- ▣ **Potential investments in the EU:** according to the EU High-Level Expert Group on Sustainable Finance, it is estimated that €11.2 trillion of investments in EU climate control measures will be required between 2021 and 2030 in order to meet the above EU targetⁱⁱⁱ.
- ▣ **Capital investments in Ireland:** according to Sustainable National Ireland, it is estimated that Ireland's transition to a sustainable, low-carbon economy will require in excess of €40 billion of new capital investment by 2050^{iv}.
- ▣ **Sustainable Development Goals:** The 2030 Agenda for Sustainable Development encourages countries to develop national responses to the Sustainable Development Goals and incorporate them into planning and policy.

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- ▣ **Financial Penalties:** Ireland could face substantial fines for missing the EU carbon reduction targets by 2020.

Green Bonds

Green bonds are becoming an increasingly prevalent form of sustainable finance. According to the Climate Bonds Initiative, the global green bond market reached \$162 billion in 2018 and is estimated to reach \$300 billion in 2019^v.

In October 2018, Ireland became the fourth EU country (alongside France, Belgium and Poland) to issue a green bond aimed at funding environmental investments. According to the National Treasury Management Agency (the “**NTMA**”), the proceeds of the green bond are to be used in accordance with the Irish Sovereign Green Bond Framework (the “**ISGB Framework**”), which was published by the NTMA as a pre-requisite to issuing a sovereign green bond. The ISGB Framework sets out how proceeds from Irish Sovereign Green Bond issuance will be allocated against eligible green projects. According to the ISGB Framework this will primarily address climate change mitigation and adaptation, clean water and wastewater treatment, countering natural resources depletion, loss of biodiversity and the reduction of air pollution^{vi}. The ISGB Framework aligns with the core components of the Green Bond Principles (2018) as developed by the International Capital Market Association.

Green Loans

In addition to green bonds, sustainable finance can take the form of financing climate change projects such as renewable energy projects, infrastructure projects and energy-efficiency projects, in the form of green loans.

With the growth in the green loan market, the Loan Market Association, together with the Asia Pacific Loan Market Association, launched the ‘Green Loan Principles’ as a benchmark for the wholesale green loan market in March 2018 (as amended in December 2018)^{vii}. The Green Loan Principles (the “**GLP**”) provide market guidance on what constitutes a green loan. The GLP were developed by a working party, consisting of representatives from leading financial institutions active in the green loan market, with the assistance of, amongst others, the International Capital Market Association and the European Banking Federation.

According to the GLP, green loans are defined as “*any type of loan instrument made available exclusively to finance or re-finance, in whole or in part, new and/or existing eligible Green Projects*”. “Green Projects” are defined by reference to a non-exhaustive list of eligible categories set out in Appendix 1 to the GLP. Indicative categories of eligibility for Green Projects include production and transmission of renewable energy, pollution prevention and control, sustainable natural resources management, biodiversity conservation, climate change adaptation and green buildings.

In addition to the above, according to the GLP, the green loans must align with the following four core components:-

Use of Proceeds	The loan must be used for the purposes of a Green Project and this must be clearly articulated in the relevant finance documentation.
Process for Project Evaluation and Selection	The borrower of the green loan must provide the lender with its environmental sustainability objectives and the basis upon which it has determined that its project meets the criteria to constitute a Green Project.
Management of Proceeds	The proceeds of green loans should be credited to a dedicated account or otherwise tracked by the borrower. In circumstances where the green loan forms part of a series of tranches in a loan facility, the proceeds of the green loan should be credited to a segregated account or otherwise tracked by the borrower in a manner that confirms that the monies are being used for the Green Project.
Reporting	The borrower is obliged to provide the lender with annual updates on the use of the proceeds, until the loan is fully drawn and as necessary after that point in the event of any material developments. This report must also include details of the achieved or expected impacts of the Green Project.

These voluntary recommended guidelines are to be applied on a deal-by-deal basis depending on the underlying characteristics of the transaction. The LMA hopes that the issuance of the GLP could be the catalyst to developing a robust green lending market.

Sustainable Finance and Opportunities for Ireland

As it stands, sustainable finance forms a key strategic priority in Ireland's International Financial Services strategy, the 'IFS 2020'. Sustainable finance is naturally complementary to Ireland's existing expertise and reputation for highly rated international financial services. Euronext Dublin has established itself as the exchange of choice for many leading international listings of debt and the development of European green bond standards will lead to further growth.

Sustainable Nation Ireland is the national platform tasked with implementation of the IFS 2020 action plan. Sustainable Nation Ireland estimates that nearly €28 billion of sustainable finance activity was already underway in Ireland in 2018^{viii}, including investment in green infrastructure funds, investment in UCITS funds and environmentally focused investment policies, along with investment in green listed equities.

Recent recognition of Dublin as a hub for sustainable finance was the establishment by Financial Centres for Sustainability (FC4S) of its European base in Dublin in August 2018. This sees Dublin

line up with cities including London, Frankfurt, Paris, Toronto, Hong Kong, Shanghai and Zurich as key hubs for sustainable finance and investment.

It is likely that sustainable financial services shall expand to encompass the banking, capital markets, insurance and investment sectors in the EU, and particularly Ireland, in order to fully meet the imposed targets and the challenges of climate change. Such expansion creates an opportunity for Ireland to lead the way in delivering significant impact in critical areas such as a sustainable financial system.

How can Dillon Eustace help?

If you have any queries in respect of the above or require further information, please contact your usual Dillon Eustace contact or any member of the Banking and Capital Markets Team.

ⁱ European Commission, 'Sustainable Finance', https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en

ⁱⁱ European Commission, 'EU climate action', https://ec.europa.eu/clima/citizens/eu_en

ⁱⁱⁱ EU High-Level Expert Group on Sustainable Finance, 'Financing a Sustainable European Economy', https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf

^{iv} Sustainable Nation Ireland, 'Finance Green Ireland', https://www.sustainablenation.ie/wp-content/uploads/2017/05/SNI_Green_Finance_Ireland-FINAL-for-web.pdf

^v Climate Bonds Initiative, <https://www.climatebonds.net/>

^{vi} National Treasury Management Agency, 'Irish Sovereign Green Bond Framework', <https://www.ntma.ie/wp-content/uploads/2018/09/Irish-Sovereign-Green-Bond-Framework.pdf>

^{vii} Loan Market Association, 'Green Loan Principles', 21 March 2018 (as amended)

^{viii} Sustainable Nation Ireland, 'So, how do we create a financial system that supports the sustainable development of the European Union?', <https://www.sustainablenation.ie/create-financial-system-supports-sustainable-development-european-union/>

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