LUXEMBOURG LEADS THE WAY IN SUSTAINABLE FINANCE

Green bonds still predominate but innovative issuers will soon consider bringing other sustainable securities, such as shares, to Luxembourg's busy green finance market

Dr. Philipp Mössner, partner

Rising awareness of climate change and its risks have put Sustainable Finance in the spotlight and now led to the first regulatory proposals.

Luxembourg, home of the Luxembourg Green Exchange, offers a range of fund, corporate and securitisation tools to structure sustainable investment products to benefit from the 'ESG' trend.

Following the Paris Climate Agreement the European Commission established the High Level Expert Group on Sustainable Finance on integrating sustainability considerations into financial policies. The final report, issued earlier this year, formed the basis of the Commission's action plan on Sustainable Finance of March 2018, which was followed by a package of measures adopted on 24 May. The package aims at channeling more investments into sustainable finance and proposes a unified EU classification system of sustainable economy activities (taxonomy), to introduce ESG-disclosure duties for institutional investors and create low-carbon benchmarks.

With the Commission delivering concrete actions, market participants would be well-advised to explore the opportunities thoroughly.

In particular, the proposal for taxonomy will address difficulties in supplying the desired green, not 'green-washed', products in view of an exponentially growing demand from investors. The upcoming regulation will also increase the regulatory pressure on banks, insurance and investment firms to shift investments towards sustainable finance. This will be good news for issuers, corporates and funds, especially if they have their sustainable business lines in place. Green issuers will benefit from a bigger investor pool and higher demand as they cater to investors who are obliged to 'go green'. It is thus no surprise that banks are the leading participants in the green bonds market.

Also, the European Insurance and Occupational Pensions Authority recently proposed incentivising green investments with lower capital requirements. The EU regulation will create the long-awaited standards and incentives to further open the market to retail clients.

As a financial hub at the centre of Europe Luxembourg has positioned itself as a pioneer in sustainable finance. The Luxembourg Stock Exchange listed the first green bond of the European Investment Bank (EIB) in 2007. Besides the KFW and the EIB, more than 160 green bonds representing a volume of over €80bn, are now listed on the Luxembourg Green Exchange (LGX) – a global market share of more than 50 per cent. The LGX is hence the biggest platform dedicated to sustainable financial instruments. Issuers who list their green financial instruments on it benefit from an established infrastructure, know-how and market recognition.

Also, the Luxembourg fund industry is the number one domicile for responsible investment funds in Europe and has been active in microfinance for a decade. Further initiatives and associations, such as LuxFLAG, the Luxembourg Bankers' Association, the Luxembourg-EIB Climate Finance Platform and the Luxembourg Sustainable Finance Platform, show the country's strong support for sustainable finance. For these reasons Luxembourg has been awarded second place in green finance quality and sixth place in market penetration by the Global Green Finance Index.

Green bonds and beyond

With respect to the structuring of sustainable investment products, green bonds are and will remain the most prominent instruments. Originally promoted by the EIB and other development banks, private banks are now discovering this debt instrument, for example in the form of green (covered) bonds funding energy-efficient mortgages, renewable energy or investments in clean technology.

Due to the high level of transparency capital markets will continue to be a particularly suitable environment for sustainable investment products. However, more innovative issuers will soon consider issuing other sustainable securities, such as shares if their business is dedicated to ESG projects or tracking shares linked to assets or areas of operation whose proceeds are dedicated to sustainable projects. Securitisation, re-packaging and corporate restructuring will be further tools to consolidate eligible ESG assets and allow the issuance of sustainable instruments.

GSK STOCKMANN

GSK Luxembourg SA, 44, Avenue John F. Kennedy, L-1855 Luxembourg

Tel: +352 2718 0200 **Fax:** +352 2718 0211

E-mail: philipp.moessner@gsk-lux.com **Web:** www.gsk-lux.com