ELFA Legal & Regulatory Update
15/06/2020 – 19/06/2020

Key Highlights:

- This Legal & Regulatory Update covers the week commencing 15/06/2020.
- BoE publishes its first climate-related financial disclosure.
- FCA permanently bans marketing of mini bonds.
- FRC issues guidance to companies in areas of reporting highlighted by investors as most critical.
- TPR updates guidance to help pension schemes tackle COVID-19 challenges.
- ESMA publishes example of an annual financial report in ESEF format.
- Working group on euro risk-free rates recommends voluntary compensation for legacy swaption contracts affected by the discounting transition to the €STR.
- European Commission consults on EU Green Bond Standard, which we summarise below and analyse in more detail at the end of this update.
- United Nations-supported Principles for Responsible Investment publishes report on investing with SDG outcomes.
- UNDP launches standards for bond issuers and private equity funds seeking sustainable development goals.
- In this update, we also cover some of the most important news on leveraged finance published by the Financial Times and Thomson Reuters during the week.

The Bank of England (BoE)

18 June 2020: BoE publishes its first climate-related financial disclosure

The Bank of England (BoE) published its own climate-related financial disclosure for the first time in June 2020 which sets out the BoE's approach to managing the risks from climate change across its entire operations.

The report covers:

- BoE's approach to climate-related risk disclosure;
- the governance structures and processes the BoE uses to manage climate-related financial risk;
- BoE's approach to setting climate strategy and managing its implementation; and
- BoE's approach to climate-related financial risk management, including targets and the metrics

18 June 2020: BoE increases its asset purchase programme

The Monetary Policy Committee (MOC) voted BoE to continue with the existing programme of £200bn of UK government bond and sterling non-financial investment-grade corporate bond purchases, and to increase the stock of purchases of UK government bonds, financed by central bank reserves, by an additional £100bn, to take the total stock of asset purchases to £745bn.

19 June 2020: BoE gives update on the contingent term repo facility

The BoE announced that, in light of continued improvements in funding market conditions and recent usage patterns, it will discontinue 1-month Contingent Term Repo Facility (CTRF) operations at the end of June 2020. The final operation is scheduled to take place on 26 June 2020.

15 – 19 June 2020: Speeches & Other Publications

During the week, the BoE released the following speeches & other publications that might be of interest to our readers:

- Prudential Regulation Authority Annual Report 2019/20
- Financial stress and the debt structure - Staff working papers
- Payments after the Covid crisis – emerging issues and challenges, speech by Christina Segal-Knowles
- One Bank Research Seminar - Prof Roland Imhoff
- Bank of England Annual Report and Accounts - 2020
- Asset Purchase Facility Annual Report 2019/20
- The Prescribed Persons (Reports on Disclosures of Information) Regulations 2017 - Annual Report 2019/20
- Bank of England Weekly Report 17 June 2020

- Insurance Stress Test 2019: Feedback for general and life insurers
- Changes to the provision of US dollar repo operations from July 2020
- US dollar liquidity-providing operations from 1 July 2020
- Index Linked Treasury Stocks
- Bank Rate maintained at 0.1% - June 2020
- Exchange of letters between the Governor and the Chancellor regarding CPI Inflation - June 2020
- Exchange of letters between the Governor and the Chancellor on the Asset Purchase Facility - June 2020
- Latest results from the Decision Maker Panel survey - 2020 Q2
- Consolidated worldwide claims - 2020 Q1

The Financial Conduct Authority (FCA)

18 June 2020: FCA to make mini-bond marketing ban permanent

The Financial Conduct Authority (FCA) announced proposals to make permanent its ban on the mass-marketing of speculative illiquid securities, including speculative mini-bonds, to retail investors. The FCA introduced the ban without consultation in January following concerns that speculative mini-bonds were being promoted to retail investors who neither understood the risks involved, nor could afford the potential financial losses. In introducing the rules permanently, the FCA is proposing a small number of changes and clarifications to the ban introduced in January. This includes bringing listed bonds with similar features to speculative illiquid securities and which are not regularly traded within the scope of the ban.

The FCA ban will mean that products caught by the rules can only be promoted to investors that firms know are sophisticated or high net worth. Marketing material produced or approved by an authorised firm will also have to include a specific risk warning and disclose any costs or payments to third parties that are deducted from the money raised from investors.

15 – 19 June 2020: Speeches, Letters & Other Publications

During the week, the FCA released the following publications that might be of interest to our readers:

- Finalised Guidance: Business interruption insurance test case
- Research Note: Choosing wisely: preferences, comprehension and the effect of risk warnings on financial promotions for investment products
- June 2020 update of position limits for some commodity derivative contracts
- A financial system to support the recovery, Speech by Charles Randell
- The FCA's and PSR's joint approach to Access to Cash
- Firms must do more to ensure that they are always giving appropriate equity release advice, FCA review finds
- FCA announces proposals to further support consumer credit customers

Financial Reporting Council (FRC)

15 June 2020: FRC issues Guidance to companies in areas of reporting highlighted by investors as most critical

The Financial Reporting Council's (FRC) Lab has issued two new reports which provide practical guidance to companies in areas of reporting that investors have highlighted as being most critical. The reports found that investors recognise COVID-19 may create a wide range of issues for companies, but that the provision of transparent and timely information helps investors in their decision-making and drives the allocation of capital when companies are looking to the markets for support. The first report provides further practical advice to companies following the Lab's infographic issued in March setting out the disclosures investors expect to see from companies during this time of uncertainty. The second report gives specific guidance on going concern, risk and viability disclosures.

The Lab's reports found that investors are fully aware that the levels of uncertainty are unprecedented and, to a large extent, outside companies' control. They encourage Boards of companies to consider plausible scenarios and report on how they intend to respond to these going forward. Examples of good practice reporting have been included to assist companies. Specific elements of uncertainty relevant to the next 12 months might include (but are not limited to):

- timing of resumption of operations,
- further restrictions that limit the return to normal operations,

- restrictions placed on government (or other) capital,
- timing and continuation of government schemes and support packages,
- the outcome of capital raising actions, discussions with banks, and landlords,
- short-term impacts of pricing changes to revenue and expenses, and
- impacts on human capital, the supply chain and customers.

The Pensions Regulator (TPR)

16 June 2020: TPR updates Guidance to help pension schemes tackle COVID-19 challenges

Guidance designed to help pension scheme trustees and employers cope with the financial impact of COVID-19 has been updated by The Pensions Regulator (TPR). Among the updates is further guidance for trustees of defined benefit (DB) schemes facing employer requests to agree to suspend or reduce deficit repair contributions (DRCs). Trustees may agree these where it may be necessary to support employers navigating the challenges resulting from COVID-19. Furthermore, the guidance now asks trustees to resume reporting certain key information to TPR to ensure risks are being managed and savers protected.

From 1 July, pension trustees should resume reporting information to TPR. This will ensure the regulator is able to horizon-scan effectively, identify risks and act as necessary to protect savers. Areas TPR expects trustees to report details of include:

- suspended or reduced contributions – TPR will expect a revised recovery plan or a report of missed contributions;
- late valuations and recovery plan not agreed; and
- delays in CETV quotations and payments.

18 June 2020: TPR launches tough new interim regime for emerging superfund pension market

TPR unveiled the high bar it expects new superfunds to meet to ensure savers in defined benefit (DB) schemes are protected ahead of Government legislation. The new guidance, which comes into force immediately, sets out TPR's expectations for how DB consolidator superfunds and other new models must show they are well-governed, run by fit and proper people and are backed by adequate capital. It also explains how they will be assessed and regulated. The regulatory regime announced by TPR is interim to ensure clear rules are in place as these models emerge. It ensures that savers and the PPF are protected while providing employers and trustees with more choice during this period of uncertainty caused by COVID-19.

The European Securities and Markets Authority (ESMA)

15 June 2020: ESMA publishes 2019 Annual Report and updates 2020 Annual Work Programme

The European Securities and Markets Authority (ESMA) has published its Annual Report, which reviews the achievements from 2019 against its mission of enhancing investor protection and promoting stable and orderly financial markets in the European Union. The Annual Report sets out ESMA's key actions taken in the previous year. In addition to that and amid the COVID-19 outbreak, the Authority's work has been recently focusing on its response to the crisis. In order to reflect these challenging times for the financial markets, ESMA has also published a revised version of its 2020 Annual Work Programme. The latter includes the Authority's additional work on its immediate reaction to the crisis and indicates potential deprioritisation regarding ongoing and future mandates.

16 June 2020: ESMA appoints new Securities and Markets Stakeholder Group

ESMA has published the new list of members of its Securities and Markets Stakeholder Group (SMSG) following approval by its Board of Supervisors. The selected individuals begin a four-year term on 1 July 2020. The SMSG will provide ESMA with advice on its policy work and must be consulted on technical standards, guidelines and recommendations.

17 June 2020: ESMA publishes example of an annual financial report in ESEF format

ESMA published on its website an example of an annual financial report which is prepared in the new European Single Electronic Format (ESEF). This format is in line with the requirements included in the Commission Delegated Regulation 2019/815 (ESEF Regulation) and the guidance provided in the ESEF Reporting Manual as last updated by ESMA in July 2019. The report was prepared by the Global LEI Foundation in cooperation with ESMA and aims to provide issuers with an example of an annual report in the ESEF format for their submissions to the national Officially Appointed Mechanisms. Additional publications (such as an Inline XBRL viewer) are available on GLEIF's website.

18 June 2020: ESMA integrates the 2020 IFRS taxonomy into ESEF RTS

ESMA published a draft amendment to the Regulatory Technical Standards (RTS) on the European Single Electronic Format (ESEF). This update provides a purely technical amendment to the original RTS on the ESEF, incorporating the 2020 version of the IFRS taxonomy published by the IFRS Foundation in March 2020. The 2020 taxonomy will be mandatory for annual financial reports containing financial statements for financial years beginning on or after 1 January 2021. However, issuers will be allowed to adopt it already for 2020 reports on a voluntary basis.

The ESEF taxonomy is based on the IFRS Taxonomy. Therefore, as IFRS Standards and taxonomy evolve, the ESEF RTS must also evolve to provide preparers with the most relevant ESEF taxonomy for tagging IFRS consolidated financial statements.This will promote electronic reporting that is up to date with the applicable reporting standards, facilitating implementation of the tagging requirements and ensuring the highest comparability of filings for end-users at European and global level.

The European Insurance and Occupational Pensions Authority (EIOPA)

15 June 2020: EIOPA publishes its Annual Report 20109

The European Insurance and Occupational Pensions Authority (EIOPA) published its 2019 Annual Report, setting out its activities and achievements of the past year. Throughout the course of the year, EIOPA continued to play an essential role in the supervision of insurance and pensions in Europe, working closely with national supervisory authorities, European institutions and other stakeholders to fulfil its strategic objectives set out in its annual work programme. Looking ahead, EIOPA will continue to deliver on its mission. Taking into consideration the post-Coronavirus environment, EIOPA will continue to focus on consumer protection and the financial stability of the insurance and pensions sector, in particular so that the sector remains resilient, fair and able to rebound.

17 June 2020: EIOPA publishes its report on supervisory activities in 2019

EIOPA published its report on supervisory activities in 2019 highlighting activities and achievements throughout the course of the year, covering both prudential and conduct of business supervision. A key area of work in 2019 focused on proposing amendments to Solvency II in the context of the 2020 Review of Solvency II as a result of the identification of inconsistencies in the implementation of some areas of Solvency II. In the area of supervision of emerging risks, EIOPA concluded a thematic review on the use of Big Data analytics in motor and health insurance and carried out a public consultation on draft Guidelines on information and communication technology security and governance. Looking ahead, EIOPA will focus is supervisory work on activities set out in its Supervisory Convergence Plan.

18 June 2020: EIOPA publishes findings of its peer review of Regular Supervisory Report

EIOPA published the findings of its peer review of the Regular Supervisory Report (RSR). The peer review examined how and to what extent the proportionate approach set out under the Delegated Regulation has been implemented among national competent authorities (NCAs). It also aims to determine if further convergence is needed on the frequency of submission of RSRs. In the peer review, EIOPA analysed legal and regulatory frameworks and national supervisory practices across 31 National Competent Authorities (NCAs) in relation to decisions on the frequency of submission of the RSR, and the communication of those decisions to undertakings. As a result of the findings of the peer review, EIOPA will take number of actions to further achieve supervisory convergence in this area. It will develop further guidance in relation to the minimum requirement for submission of the full RSR and its mandatory assessment by NCAs, as well as towards the communication of the frequency of the RSR.

19 June 2020: EIOPA publishes bi-weekly information for Relevant Risk Free Interest Rate Term Structures and Symmetric Adjustment to Equity Risk with reference to 16 June 2020

Due to COVID-19 outbreak, EIOPA is carrying out bi-weekly extraordinary calculations to monitor the evolution of the relevant risk-free interest rate term structures (RFR) and the symmetric adjustment to equity risk (EDA). EIOPA is publishing this information in order to support insurance and reinsurance undertakings in the monitoring of their solvency and financial position. The information will be published on a specific area of the website created for this purpose for both RFR and EDA named "Extraordinary updates".

European Banking Authority (EBA)

15 June 2020: EBA calls for input to understand impact of de-risking on financial institutions and customers

The European Banking Authority (EBA) issued a call for input to understand the scale and drivers of 'de-risking' at EU level and its impact on customers. This call, which forms part of the EBA's work to lead, coordinate and monitor the EU financial sector's AML/CFT efforts, aims primarily to understand why financial institutions choose to de-risk instead of managing the risks associated with certain sectors or customers. To manage customers' profiles associated with higher ML/TF risks, financial institutions may decide not to service a particular customer or category of customers. This is referred to as 'de-risking', and affects both financial institutions and its users. De-risking affects particular sectors and customers across the EU, such as banks engaged in correspondent banking relationships, payment institutions and NGOs. This call for input is of interest to stakeholders across the financial sector and its users, as the EBA wants to hear from all groups affected by de-risking. The call for input runs until 11 September 2020.

17 June 2020: EBA publishes its first peer review of stress tests and resilience of deposit guarantee schemes

The EBA published its first peer review of stress tests and the resilience of Deposit Guarantee Scheme (DGSs). The purpose of the peer review was to assess the resilience of DGSs based on the results of the DGS stress tests, and to identify good practices and areas for improvement. In the Report, the EBA assessed the results of 135 DGS stress tests performed by 32 DGSs from 27 EU Member States. The priority tests covered DGS' operational and funding capabilities, credit institutions' single customer view (SCV) files containing depositor information to prepare for a DGS payout, and cross-border cooperation between DGSs in case of cross-border branches

17 June 2020: EBA makes changes to its Q&A tool

The EBA announced that it has expanded the scope of its Questions and Answers (Q&A) process and tool to enable the submission of questions on the Anti-Money-Laundering Directive and Consumer Protection legislation under the EBA's scope. Going forward, submitted questions, subject to meeting the prescribed criteria, will be published on the EBA website while their answers are being prepared. The EBA has also made some changes to expand and update its online Interactive Single Rulebook.

18 June 2020: EBA publishes final revised technical standards to enhance quality and consistency of information for passport notifications

The EBA published its Final draft amending Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) on passport notification. The two sets of amending technical standards increase the quality and consistency of information to be provided by a credit institution notifying its home competent authorities when it intends to open a branch or provide services in another Member State, as well as of the communication between home and host authorities.

In particular, the amendments focus on:

- requesting the credit institution to indicate as accurate, as accurately as possible, the intended start date of each activity for which the notification is submitted, rather than just of the core business activities;
- increasing the granularity of the information on the financial plan to be notified in case of establishment of a branch; and
- providing additional information in case of termination of the branch.

18 June 2020: EBA extends deadline for application of its Guidelines on payment moratoria to 30 September

The EBA has decided to extend the application date of its Guidelines on legislative and non-legislative moratoria to 30 September 2020. With EU economies not yet fully opened, this extension shows the importance of a continued support to the measures taken by banks to extend loans in response to the extraordinary nature of the current situation. This extension would ensure that adequate treatment for borrowers is available across the EU, considering that the Covid-19 crisis has been affecting EU countries in a different way and at a different pace.

18 June 2020: EBA publishes revised standards to identify staff with a material impact on institution's risk profile

The EBA published its final draft Regulatory Technical Standards (RTS) on the criteria to identify all categories of staff whose professional activities have a material impact on the institutions' risk profile ("risk takers"). The objective of these RTS is to define and harmonise the criteria for the identification of such staff and to ensure a consistent approach across the EU. The identification process is based on a combination of qualitative and quantitative criteria.

Risk takers will be identified based on the criteria laid down in the revised Capital Requirements Directive (CRD) and those specified in the RTS, once the final draft have been adopted. To ensure that all risk takers are identified, members of staff are identified as having a material impact on the institution's risk profile as soon as they meet at least one of the criteria, be it the criteria foreseen under the CRD, the qualitative or quantitative criteria in the RTS or, where necessary because of the specificities of their business model, additional internal criteria. The final draft RTS retain the qualitative criterion that identify the staff high levels of remuneration above EUR 750,000. In addition, the 0.3% of staff with the highest remuneration criterion has been amended to be applied only by institutions that have more than 1000 staff in order to reduce the burden for small institutions. The quantitative criteria are based on the rebuttable assumption that the professional activities of those staff would have a material impact on the institutions risk profile.

European Central Bank (ECB)

16 June 2020: Working group on euro risk-free rates recommends voluntary compensation for legacy swaption contracts affected by the discounting transition to the €STR

The European Central Bank (ECB) announced in a press release that the private sector working group on euro risk-free rates has endorsed a recommendation that counterparties voluntarily exchange compensation for legacy swaption contracts affected by the transition of central counterparty discounting from the euro overnight index average (EONIA) to the euro short-term rate (€STR), which is planned for around 27 July 2020.

The working group acknowledges that the modalities for implementing voluntary compensation may vary. It decided not to recommend one approach above others, as market feedback did not single out a preferred option. There was also no consensus around the scope of the swaption contracts to be compensated. The working group is also sharing additional information on what appear to be the most feasible and preferred options with market participants to assist them in making their own decisions. The working group notes that this recommendation is based solely on feedback received from the public consultation launched in March of this year. It also stresses that any agreement between counterparties to make adjustments to their contracts or exchange compensation, whether based on the working group recommendation or not, would be entirely voluntary.

15 – 19 June 2020: Speeches & Other Publications

During the week, the ECB released the following speeches and publications that might be of interest to our readers:

- ECB Banking Supervision's approach to climate risks, speech by Andrea Enria
- WG on euro RFR recommendation on Swaptions impacted by the discounting switch to EuroSTR
- Citizens' attitudes towards the ECB, the euro and Economic and Monetary Union
- Access to finance for small and medium-sized enterprises since the financial crisis: evidence from survey data
- The Global Weakness Index – reading the economy's vital signs during the COVID-19 crisis
- Coronavirus (COVID-19): market fear as implied by options prices
- Impact of the COVID-19 lockdown on trade in travel services
- The COVID-19 crisis and its implications for fiscal policies
- Liquidity conditions and monetary policy operations in the period from 29 January to 5 May 2020
- Identifying financial constraints - Working Paper Series
- Monetary policy transmission over the leverage cycle: evidence for the euro area-Working Paper Series

- Bank capital regulation in a zero interest environment - Working Paper Series
- Letter from the ECB President to Mr Marco Zanni, MEP, on systemic risk in the Dutch real estate market

European Commission (EC)

12 June 2020: EC consults on EU Green Bond Standard

It is important to mention to our ELFA readers that, last week, on the 12th of June, the European Commission (EC) launched a targeted consultation on the establishment of an EU Green Bond Standard, which will be open until Friday 2 October 2020.

Please read our more in-depth report (Report 1) at the end of this update for a comprehensive summary and analysis of the EC's Consultation.

Basel Committee on Banking Supervision (BCBS)

17 June 2020: BCBS meets to discuss impact of Covid-19 and reiterates guidance on buffers

The Basel Committee met on 10 and 16 June 2020 to discuss a range of policy issues and to review the impact to date of the Covid-19 pandemic on the global banking system. The Committee views a measured drawdown of banks' Basel III buffers to meet the buffers' objectives as both anticipated and appropriate in the current period of stress. Supervisors will provide banks sufficient time to restore buffers taking account of economic and market conditions and individual bank circumstances.

In addition to its discussion related to Covid-19, the Committee approved:

- final revisions to the credit valuation adjustment risk framework, which will be published in the coming weeks; and
- a technical amendment on the prudential treatment of non-performing loan securitisations, which will be published for consultation.

During the meetings, members took stock of banks' progress on benchmark rate reforms and discussed potential regulatory implications stemming from banks' transition to alternative reference rates. The Committee explained that it places high priority on this issue and expects all banks to be adequately prepared to meet the transition timeline. The Committee also reviewed the responses received to its discussion paper on the prudential treatment for crypto-assets and approved a workplan for the next phase of the work, with a view to future consultation.

Central Bank of Ireland (CBI)

16 June 2020: CBI publishes its first Financial Stability Review of 2020

The Central Bank of Ireland (CBI) has published the first Financial Stability Review (FSR) of 2020. The FSR outlines the CBI's assessment of the key risks facing the financial system, the resilience of the economy and financial system to adverse shocks, and the policy actions being taken to safeguard financial stability. According to the FSR, the impact of the COVID-19 pandemic on real economy has yet to fully materialise.

The main findings of the Financial Stability Review are:

- the risks posed to domestic financial stability stem from the sudden halt in domestic economic activity, further financial market stresses and the structural vulnerabilities of Ireland's small, open economy being exposed to the downside risks in the recovery of global demand;
- the macro-financial outlook is intimately linked to the pandemic itself, including the success of the public health measures and medical advances to tackle it;
- companies will require access to liquidity and, in some cases, solvency support to reduce the risk that the productive capacity of the economy is permanently damaged;
- the domestic banking system has already played a role in supporting liquidity needs of households and businesses so far in this crisis, including through payment breaks;
- COVID-19 will put pressure on banks' financial position, but improved resilience, supported by recent policy actions, results in a banking system that is now better able to absorb, rather than amplify, such a shock; and
- market developments in light of COVID-19 underline the need to understand and address any structural vulnerabilities from parts of the market-based finance sector at a global level.

15 – 19 June 2020: CBI Speeches & Other Publications

During the week, the CBI published the following speeches & publications that might be of interest to our readers:

- Remarks by Governor Gabriel Makhlouf on the publication of the Financial Stability Review 2020:1
- Risks, Resilience and Policy Responses to COVID-19 – Speech by Deputy Governor Sharon Donnery

Commission de Surveillance du Secteur Financier (CSSF)

19 June 2020: CSSF updates its COVID-19 FAQ for fund managers

The CSSF published an updated version of its FAQ for fund managers. This updated version provides answers to the following questions:

- Can the remuneration benchmarking exercise of the European Banking Authority (EBA) be postponed?
- Can the remuneration benchmarking exercise at national level be postponed?
- Can the data collection exercise regarding high earners by the European Banking Authority (EBA) be postponed?

Swiss National Bank (SNB)

18 June 2020: SNB releases Monetary Policy Assessment

The Swiss National Bank (SNB) released its Monetary Policy Assessment of 18 June 2020, acknowledging its expansionary monetary policy remains necessary to ensure appropriate monetary conditions in Switzerland. The SNB is keeping the SNB policy rate and interest on sight deposits at the SNB at −0.75%, and in light of the highly valued Swiss franc it remains willing to intervene more strongly in the foreign exchange market. In so doing, it takes the overall exchange rate situation into account. Furthermore, under the SNB COVID-19 refinancing facility (CRF), it is providing the banking system with additional liquidity and thus supporting the supply of credit to the economy at favourable terms.

International Capital Market Association (ICMA)

15 June 2020: ICMA's ERCC responds to ESMA's consultation on its first report on central clearing solutions for pension scheme arrangements

ICMA's ERCC has submitted its response to the ESMA consultation on its First Report on Central Clearing Solutions for Pension Scheme Arrangements. The ERCC has limited its response to the Questions related to Section 6.3 of the report: The market-based repo solution.

Other Updates

15 June 2020: United Nations-supported Principles for Responsible Investment (PRI) publishes report on investing with SDG outcomes

The United Nations-supported Principles for Responsible Investment (PRI) released a new report on Investing with Sustainable Development Goals (SDG) providing signatories, including investors representing $100 trillion in assets under management, with a new high-level framework of investor actions to shape outcomes in line with the UN's SDGs. Following on from the PRI's "The SDG investment case" – which laid out why the SDGs are relevant to investors, why there is an expectation that investors will contribute and why investors should want to – this report takes the next steps by outlining a prospective framework for action. This framework is the starting point for a deeper and ongoing body of work on the subject, and will be the basis for future guidance and support.

16 June 2020: UNDP launches standards for bond issuers and private equity funds seeking SDG impact

The United Nations Development Programme (UNDP) released for consultation Standards to guide private equity fund managers and bond issuers in directing activities toward achieving the globally agreed Sustainable Development Goals (SDGs). These Standards are the latest contribution of market-focused tools from SDG Impact, a flagship initiative of UNDP's Finance Sector Hub, focused on accelerating investment to achieve the SDGs. The Standards will be available for comment and consultation through 31 July 2020.

In the News

During the week, the Financial Times & Thomson Reuters published the following news that might be of interest to our readers.

Financial Times

- Debt investors let borrowers go back to the future
  "Businesses suffering plunging revenues because of Covid-19 are seeking to avoid potential debt breaches by substituting last year's profits in place of this year's in the documents they present to their lenders"

- UK regulator permanently bans marketing of mini bonds
  "Britain's financial regulator is to ban the marketing of high-risk "mini bonds" to retail investors permanently, after nearly 12,000 pensioners and small savers lost £236m in the collapse of London Capital and Finance"

- Majority of ESG funds outperform wider market over 10 years
  "Close to six out of 10 sustainable funds delivered higher returns than equivalent conventional funds over the past decade, according to a study that undermines claims that investing based on environmental, social and governance principles hampers performance"

- Bank of England boosts bond-buying by £100bn but slows the pace
  "The Bank of England voted to pump an additional £100bn into the UK economy on Thursday but, with financial markets more stable than in March, it felt able to slash the pace at which it would inject the money"

- Bridgepoint to buy private equity firm EQT's €3.9bn credit business
  "UK-based private equity firm Bridgepoint Advisers has agreed to buy rival buyout group EQT Partners' €3.9bn credit arm, according to two people familiar with the matter, expanding its firepower in lending just as the coronavirus crisis leaves hard-hit companies seeking fresh financing"

- BP raises $12bn in wake of multibillion-dollar writedown
  "The deal marked the largest ever sale of so-called hybrid bonds, which place less of a strain on a company's balance sheet because the principal never has to be repaid"

- Bundesbank boss moves to defuse row between ECB and German court
  "The head of Germany's central bank has sought to defuse a clash between the country's highest court and the European Central Bank by suggesting three ways the impasse over eurozone sovereign bond purchases could be resolved"

- Wirecard's future in doubt after missing cash sparks investor flight
  "The missing cash was equivalent to all the profits the group had declared since 2012, and Wirecard said if it failed to file audited financial statements on Friday, it would be at the mercy of lenders who could terminate €2bn worth of loans"

- US companies near 2019 bond-issuance total with coronavirus binge
  "Top-rated US companies have issued almost as much debt this year as they did in the whole of 2019, building large cash reserves to ride out the coronavirus pandemic and taking advantage of cheap borrowing costs in a market boosted by central bank assistance"

- US corporate borrowing costs sink to record low
  "Foreign investors have flocked back into US corporate bonds after a brief exodus, helping push the yield on higher-quality debt to a new record low"

- [Jay Powell says bond-buying launch shows Fed resolve to meet promises]
“Jay Powell says the launch of the Federal Reserve’s corporate bond-buying programme shows it is serious on following through on promises made to financial markets, but the chairman of the US central bank swore it did not want to be an “elephant” trampling signals from the $10tn market”

- Bloomberg urges users to get set for negative US rates
“Data provider Bloomberg has urged users to switch the way they price US dollar interest rate options — in case they are caught out by a move by the Federal Reserve to push rates below zero

- A bloodbath awaits commercial property investors
“It is sad to see all those fresh-faced and eager “distressed asset managers” marching forth with cash-stuffed backpacks through the cheering throngs of pension sponsors, sovereign wealth funds and family office staff. Those who have seen more than one cycle know many of them will not survive”

- Deferred pension payments spread alarm in $3.9tn muni bond market
“Bond investors are keeping a keen eye on widening public pension deficits in the US, where the coronavirus pandemic has piled pressure on states and cities already struggling to stay afloat”

- Darker corners of debt markets offer refuge to investors
“A vast policy response from governments and central banks has averted the worst of the financial pain from the Covid-19 crisis, leaving investors to gauge the long-term costs and opportunities”

- Four in five fund managers believe stocks ‘overvalued’, survey finds
“A vast majority of investors believe stock markets around the world are overvalued, as concerns over a new surge in coronavirus cases hang over the rapid recovery in prices since March”

- United Airlines pledges mileage programme to secure loan
“The capital raising measures, designed to cover a cash burn averaging $30m a day in the third quarter, is one of the most expansive to date in an airline sector reeling from the coronavirus pandemic. In particular, it is a significant move for an airline to use its profitable mileage programme to back a loan, analysts said”

Thomson Reuters

- Lenders get creative on debt to tie up M&A
“Banks and borrowers are being forced to get creative on debt financings, putting in place sub-optimal structures in a bid to complete M&A transactions”

- Bank of England slows bond purchases as it sees some recovery signs
“The Bank of England slowed the pace of its huge bond-buying programme on Thursday as it saw some signs that the British economy was recovering from the unprecedented slump caused by the coronavirus lockdown”

- Euro zone bonds steady ahead of TLTRO take-up
“Around 1.4 trillion euros is expected to be taken up, which would make it the ECB’s biggest single lending operation”

- Thyssenkrupp’s elevator division set for multi-billion euro debt issue: sources
Thyssenkrupp’s (TKAG.DE) elevator division is set to launch a multi-billion euro high-yield debt package in the coming weeks to help finance its acquisition by a private equity consortium, four sources close to the matter told Reuters”

- Fed corporate bond move relieves potential stigma for companies, say investors
  "The New York Federal Reserve's planned launch on Tuesday of a bond-buying facility could help ease the potential stigma for companies of asking for help and create an important framework for what the central bank steps in to purchase, analysts and investors said"

- Fed's Clarida says there is more the central bank can do for U.S. economy
  "The Federal Reserve is far from meeting its dual mandate of targeting inflation and maximum employment and there is more the central bank can do to support the U.S. economy, Fed vice chair Richard Clarida said"

- Nomura and partners launch digital asset custodian Komainu
  "Several large financial institutions, including Nomura, are hoping that traditional assets such as bonds or stocks can be digitized and issued using blockchain technology to cut costs and simplify some processes"

Report 1. European Commission consults on EU Green Bond Standard

Last week, on the 12th of June, the European Commission (EC) launched a targeted consultation on the establishment of an EU Green Bond Standard (GBS), which will be open until Friday 2 October 2020. Green bonds have become increasingly popular as investors look for ways to help finance the transition to an environmentally sustainable economy. As such, they will be instrumental in reaching the objectives of the European Green Deal. Green bonds will play an even larger role in unlocking the private sector's potential to address climate change and foster a sustainable economic recovery after the pandemic. Given the euro is already the main currency used for the issuance of green bonds worldwide, an official EU Green Bond Standard could also bolster the international role of the euro, and help to consolidate the EU as a global hub for green finance.

Objective of the Consultation

As explained, green bonds play an increasingly important role in financing assets needed for the low-carbon transition. However, there is no uniform green bond standard within the EU. Establishing such a standard was therefore a recommendation in the final report of the Commission's High-Level Expert Group on Sustainable Finance. It was then included as an action in the 2018 Commission Action Plan on Financing Sustainable Growth, which tasked the Commission's Technical Expert Group (TEG) on Sustainable Finance with provided detailed input on what an EU Green Bond Standard could look like in its proposal for an EU GBS in June 2019 and in its usability guide (with updated proposed Standard and Green Bond Framework) from March 2020. The aim of this public consultation is to collect the views and opinions of interested parties in order to inform the establishment of an EU Green Bond Standard.

The Commission is now considering how to take the recommendations of the TEG forward, including in a possible legislative manner. This consultation is designed to gather further input of a technical nature from relevant stakeholders in the green bond market, in particular issuers, investors and related service providers. The questions assume that the reader has read the reports by the TEG on the EU GBS (mentioned above) and is familiar with the proposed content of the EU GBS, including its link to the EU Taxonomy.

About the TEG proposed EU GBS

The EU GBS aims to address several barriers identified in the current market. In June 2019, the TEG published its final report with recommendations to the EC on principles as well as a draft model of an EU GBS. The EU GBS as proposed by the TEG is intended to finance both physical and financial assets and includes the use of the latter as security (i.e. as a covered bonds or asset backed securities). The TEG proposed the following ten recommendations, three of which relate to the establishment of the EU-GBS, and the others relate to ways how European governments, European Institutions, market participants and other stakeholders can support and monitor the implementation of the EU-GBS:

- Recommendation #01: Create a voluntary EU Green Bond Standard
- Recommendation #02: The EU-GBS should comprise four core components:
    1. alignment of the use of the proceeds from the bond with the EU Taxonomy;
    2. the publication of a Green Bond Framework;
    3. mandatory reporting on the use of proceeds (allocation reports) and on environmental impact (impact report); and
    4. verification of compliance with the Green Bond Framework and the final allocation report by an external registered/authorised verifier;
- Recommendation #03: Encourage the set-up of a voluntary interim registration process for Verifiers of EU Green Bonds for an estimated transition period of up to three years
- Recommendation #04: Investors, in particular institutional investors are encouraged to use the requirements of the EU-GBS when designing their green fixed-income investment strategies and to communicate their preference and expectations actively to green bond issuers as well as to underwriters

- Recommendation #05: The TEG welcomes the recent political compromise on the sustainability-related disclosures regulation and recommends that the European Commission adopts an ambitious disclosures regime on green bond holdings for institutional investors
- Recommendation #06: Consider promoting greening the financial system by expressing and implementing a preference for EU Green Bonds
- Recommendation #07: Consider developing financial incentives to support the EU Green Bond Market alignment with the EU-GBS
- Recommendation #08: The TEG encourages all types of bond issuers to issue their future green bonds in conformity with the requirements of the EU-GBS
- Recommendation #09: Promote adoption of the EU-GBS through the EU Ecolabel for financial products
- Recommendation #10: Monitor impact on the alignment of financial flows with the EU Taxonomy's Environmental Objectives and consider further supporting action including possible legislation after an estimated period of up to 3 years

In March 2020, the TEG published its "EU Green Bond Standard Usability Guide", which offers recommendations from the TEG, with its views on the practical application of the EU GBS, as it was described by the TEG EU GBS June 2019 report. This Guide aims to support potential issuers, verifiers and investors of EU Green Bonds. It provides guidance reflecting the latest changes in the draft model of the EU GBS. As described in the TEG EU GBS report, the TEG proposes that the use of EU GBS remains voluntary. However, issuers of green bonds that do not want to use the term 'EU Green Bond' and prefer opting for other market practices are not obliged to follow the four components of the EU GBS.

COVID19 & Social Bonds

Furthermore, in this Consultation, the EC is seeking the input of stakeholders on the lessons learned from social bonds, including whether the Commission can play an even greater supportive role in building resilience to address future potential crises. Social bonds have emerged as a key instrument for mobilising private capital for social objectives. Social bonds are similar to green bonds, except that the proceeds are used exclusively for social causes, instead of energy transition and environmental goals. The ongoing COVID-19 outbreak shows the critical need to strengthen the sustainability and resilience of societies and the importance of integrating social issues and objectives into the broader functioning of economies. Financial markets have so far responded to the challenge with increased issuance of social bonds responding to the impact of COVID19.

Target group & How to submit your response

All citizens, Member States and organisations are invited to contribute to this consultation. This includes beneficiaries and end-clients, pension and insurance providers, insurance companies, asset managers, banks, financial advisors, service providers (index providers, research providers), non-financial companies, law firms, NGOs, academia, public authorities and other stakeholders.

You are invited to reply by 2 October 2020 at the latest to the online questionnaire available on the following webpage: https://ec.europa.eu/info/publications/finance-consultations-2020-eu-green-bondstandard_en

Regulators & Associations Monitored

1. FCA
2. BoE
3. The Pensions Regulator
4. FRC
5. ESMA
6. EBA
7. EIOPA
8. ECB
9. European Commission
10. Autorité des Marchés Financiers (AMF) of France
11. CSSF
12. FINMA
13. CBI
14. ICMA
15. IOSCO
16. FSB
