


Chapter 11

Environmental, Social, and Governance Assets: Recent History of Green Bonds – Genesis and Current Perspectives

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ABSTRACT

This chapter presents a historical overview of the emergence and evolution of ESG assets and, in particular, analyses the main market trends that have been observed in recent years in relation to these assets. The authors intend to present a summary of the main moments and phases that these assets have gone through, from the moment of their appearance in 2007, the year in which the European Investment Bank carried out its Climate Awareness Bond as a test issuance. The movement associated with the issue of these assets is initiated by supranational entities with little homogeneity and no fixed conventions. To overcome this impasse, the green bond principles emerged and a process of defining the characteristics of these assets began, with a particular focus on transparency and the governance process. From this stage onwards, the market showed interest in these financial products and hence the emergence of a harmonising movement regarding green bond standards in which Europe seems to have taken a leading role.

INTRODUCTION

This chapter describes the process of appearance of the green bonds in Europe. Thus, the review of the phases and moments green bonds have gone through up to the present is related to the broader concept of ESG assets.

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Our goal is to try to clarify how the financial reporting harmonization process can contribute to the development of markets based on ESG principles. Indeed, the way of reporting gives support and consistency to the reality of these assets and is the basis on which public trust and confidence is built. In this sense, the harmonisation process seems to be a key piece in the puzzle of the development of this market.

In this way, several reporting standardization initiatives have emerged in various regions and by various entities, including in the United States the Global Reporting Initiative (in its first years), the Shareholder Rights Directive II, the Securities and Exchange Commission and Sustainability Accounting Standards Board initiatives; in the Asia Pacific region, the regulations from Australia, Japan, China and Hong Kong, and in Europe that seems to be taking the lead in this field.

So, our aim in this chapter, is to present and analyse the specific case of the European process of harmonisation and standardisation, since it seems to be the most relevant and the most in-depth at the present time. We will follow a qualitative methodology, by reviewing the content of several official documents issued by the European Union and adopting the theoretical approach of institutional theory.

We will begin, after this introduction, by framing the ESG concept, in the Background section.

In the next section we will develop the focus of the chapter's theme, documenting the introduction of green bonds and the objectives that guided their emergence. Subsequently, we will move on to an analysis of the standardisation initiatives related to this type of assets and their issuance. Finally, we will focus on the harmonization process initiated by European authorities, under which the first proposals for EU green taxonomy and bond standard emerged, presented by the Technical Expert Group (TEG).

The European Green Bond initiative comprises a European Taxonomy, the European Green Bond Standard, the transparency, and disclosure aspects, and it aims to become a reference in carbon emission. In this section, the objectives defined by the European authorities with the aim of developing this market will also be presented, having in mind the content of the European Plan for Sustainable Finance, originally designated as Sustainable Finance Plan.

This plan involves several aspects, such as the establishment of the European Taxonomy in a clear and detailed way, the creation of a European Green Bond Standard and labels for financial products, the promotion of Investment in Sustainable Projects, the incorporation of sustainability in Risk Management, the introduction of a "green support factor" in the prudential rules of banks and insurers and the promotion of transparency and long-term vision, through the disclosure of sustainable information and the reinforcement of sustainable governance of entities.

An analysis of the market perspectives and recent trends will be conducted. At this point we observed that a marked initial trend generated on the supply side, was in a few years replaced by the pressure of demand in recent years.

The following section will address the development of the Solutions in practice and the Recommendations that are expected to be completed by the end of 2022, namely: the European Taxonomy, the European Green Bond Standard, Information Disclosure and Low Carbon Benchmarking.

The general goals of this chapter are to present a broad summary of the main legislative movements conducted in the EU regarding the reporting in the ESG asset market in Europe, identifying its most determinant moments, as well as the main evolution trends, both in terms of past and future. The subject of reporting in a form that ensures transparency and comparability is considered essential to support the functioning of the markets, as well as its further development and growth.

The chapter will conclude with the identification of future research opportunities regarding this subject and the Conclusions of the accomplished work.

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