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to the point
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Editor's note

Welcome to this year's first edition of our *To the Point Finance*! This issue is all about **sustainable finance**. Why? Because it's clear to us that sustainable finance will continue its rise from being a niche topic to a top item on board agendas, increasingly becoming a major market driver in financial services. As a testament to this, European bond and loan issuances with embedded environmental, social and governance (ESG) features, nearly doubled to EUR 750bln in 2021. Sustainable finance having seen this growth in recent years is also due to the EU setting forth ambitious ESG goals and putting in place a comprehensive regulatory framework aimed at paving the way for a sustainable future of financial markets.

While the ESG regulatory landscape has been developing at a tremendous pace, it's now up to market participants to adapt to this new regulatory environment. In our view, proper implementation of ESG-related initiatives will be one of the key challenges in 2022. Still, it does not seem that legislators' ESG agenda has yet been worked off. New regulatory initiatives focusing on ESG are already on the horizon (e.g. the adoption of the European Green Bond Standard).

In this issue, we cover recent responses to ESG issues from the Central Bank of Hungary, the Czech Banking Association and the European Banking Authority. Moreover, we deal with how ESG considerations may impact the restructuring of coal mines and how Fintechs might be key in tackling the ESG-related issues ahead of us. Finally, we share some valuable insights about where to find ESG in a bond capital market prospectus. Have a good read!

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Financial markets | Hungary

- **Hungary steps on green roads**

  The Central Bank of Hungary (MNB) launched its Green Programme in early 2019 to expand green financial services in Hungary. The range of products to promote green finance is constantly expanding. The MNB's Growth Bond Programme boosted the corporate bond market and issuers may elect to issue green bonds. As of today, the share of green bonds in overall bond issuances reached 13 % under the Growth Bond Programme. In late 2020, the MNB introduced the Green Preferential Capital Requirement Programme, which provides for capital requirement relief for investors purchasing green corporate bonds. In addition, the MNB launched a Green Mortgage Bond Purchase Programme to promote green housing lending. The MNB issued the Green Recommendation in April 2021 stipulating expectations towards credit institutions to facilitate the transition to sustainable operations. The Green Home Programme was launched to refinance bank lending for the construction or purchase of green homes. And in January 2022, the MNB issued a guideline to assist green bond issuers by setting forth good practices and clear requirements for green bond issuances.

  Gergely Szaloki

Fintech | Austria

- **Climate Fintech: the "green" fintech**

  Unlocking Fintech innovation can be instrumental to accelerating climate change and clean energy transition. While digital technology has already disrupted the global financial sector and improved access to banking and financial services as well as their efficiency and the user experience, climate fintech is increasingly on the radar of asset owners such as insurance companies or pension funds but also wealth managers, banks and retail investors. At its essence, climate fintech is about the application of technology such as big data, AI, blockchain or cloud computing with the goal of "greening" capital flows to achieve net zero climate targets and decarbonise the planet. The key benefits of deploying fintech technologies are rooted in their ability to crunch, compare and synthesise large volumes of data quickly and efficiently. AI can discern patterns that humans cannot and these insights can be translated into recommendations and predictions to guide investment, spending habits and policymakers, all with the ultimate goal of making more informed and climate-friendly decisions.

Research has shown that given their chances for commercialisation and scale, climate Fintech innovations globally tend to be most prolific in the areas of investment, consumer behaviour and risk analysis. Unsurprisingly, therefore, climate fintech is also on the rise in Austria. Climate Tech Startups Austria, an initiative developed by Green Tech Cluster and start-ups Glacier, presents over 120 green start-ups in Austria. While most Austrian start-ups are currently active in energy (23 %), food & agriculture (22 %) and circular (19 %), and climate fintech may still be at a relatively early stage, it is certainly a promising subsector of digital financial technology that should not be underestimated. We are confident that climate fintech will gain traction and positively contribute towards decarbonisation in the years to come.

Ursula Rath

Restructuring | Austria

- **How to restructure a coal mine**

Major Austrian banks have committed to phasing out any activities in the thermal coal sector by 2030. While clear enough for new financings (there should be none!) it is unclear what this commitment means if existing exposures default or cannot be refinanced in time. What if a debtor that operates a coal mine urgently needs short-term funding to bridge a liquidity gap? Will the banks really deny such funding, putting at risk the existing exposure? Or put differently, is there a difference between foregoing new profit and jeopardising existing investments? From a corporate law point of view, we believe there is. It remains to be seen whether the banks' commitment is strong enough to also clear this hurdle.

Miriam Simsa

Financial markets | Czech Republic

- **Czech banks pledging allegiance to ESG**

Since 2021, a significant portion of banks operating on the Czech market have recently declared their commitment to the principles and policies on environment and sustainable finance in a memorandum prepared by the Czech Banking Association (CBA). The banks pledged to (i) cooperate with the public administration in co-financing projects implemented with the help of EU funds, (ii) digitalise and implement paperless procedures, (iii) reduce carbon footprint, (iv) offer green bonds and mortgages, and (v) create sustainable and environmentally friendly loan and investment portfolios while exiting loan portfolios associated with environmentally harmful production. It is expected that ESG-conscious and transparent companies will get preferential treatment when applying for such loans. The CBA member banks have also established a Commission for Sustainable Finance, which will address how banks can contribute to creating conditions for sustainable economic development. Additionally, the CBA has prepared a questionnaire that banks will use to obtain ESG-related information from their clients starting in 2023. As far as the Czech National Bank (CNB) is concerned, it has adopted a more restrained approach to environmental issues insofar as it takes the view that it is not within its legal mandate to actively support such policies.

Matěj Šarapatka

Capital Markets | Austria

- **Where to find ESG in a bond capital markets prospectus**

Today, no comprehensive legal framework exists for the issuance of so-called green, sustainability or social bonds or the (minimum) content mandatorily to be included in an ESG-focused capital markets prospectus. As a main feature, proceeds from the issuance of ESG-focused bonds are to be invested in green, sustainable or social projects. Relevant details on the intention and/or commitments on how to invest proceeds from a bond issuance can be found in the "Use of Proceeds" section of the prospectus or in the final terms of a specific issue under a base prospectus. Standalone ESG frameworks established by the respective issuer are common. They usually do not form part of the prospectus. However, they provide for the main principles and limits for ESG-focused use of net proceeds from a bond issue. Second-party opinions on the ESG framework and/or the respective bond issuance are commonly used tools to inform investors about the eligibility of an ESG-focused bond. Finally, risk disclosure is a key element of the ESG-related content in a prospectus. In view of numerous uncertainties, designated risk factors help investors better understand the specific green, sustainability or social bond-related risks of an investment. Such risk disclosure can be found in the risk factors section of the prospectus.

Angelika Fischer and Christoph Moser

Banking | EU

- **New ESG-related reporting requirements for large credit institutions**

The European Banking Authority (EBA) recently published its final draft implementing technical standards on prudential disclosures of ESG-related risks (ITS). The reporting requirements thereby to be imposed on large credit institutions are aimed at creating "ESG-transparency". Based on such disclosures, investors as well as other stakeholders should be able to compare sustainability performance and financial activities of large institutions. Therefore, among other things, information on the institutions' exposure to carbon-intensive activities and assets, their alignment with 2050 net zero emissions goals and relationships with fuel-based clients must be disclosed. The EBA's final draft includes a series of templates and tables detailing the information that needs to be disclosed. Relevant information must be disclosed semi-annually. The ITS are set to apply from 2 June 2022. The first disclosure reference date will be 31 December 2022.

Clemens Stockhammer

Insurance | EU

- **EIOPA consultations on climate change risk scenarios**

  Identifying, understanding and managing risks are at the core of the insurance industry. Like in almost no other industry, ESG is seen more as a risk rather than an opportunity in the insurance sector due to the size, nature and complexity of climate change risk exposures.

  In its efforts to embrace the entire insurance industry in promoting climate change risk awareness, the European Insurance and Occupational Pensions Authority (EIOPA) recently closed consultations on application guidance on running climate change materiality assessments and using climate change scenarios in the Own Risk and Solvency Assessment (ORSA) – a tool for decision-making and strategic analysis under Solvency II. Such guidance should provide more practical views on how insurance companies are expected to implement sustainable finance ambitions in practice. The EIOPA's final guidance is expected to be adopted in June 2022.

  Ozren Kobsa

For further information, please contact any of the individuals named above, your usual contacts at Schoenherr or any member of our banking, finance & capital markets practice group