EMPOWERING SUSTAINABLE GROWTH

Interview with CaixaBank

What market innovations on the Capital Markets have caught the attention of CaixaBank from the ESG perspective?

The last few years have been exciting in terms of new ESG market developments, and therefore it is difficult to single out a particular one. If we were to highlight any, we would point out the development of the EU Taxonomy, which represents an unprecedented effort in the standardization and homogenization of what assets today can be considered "Green". One of the historical challenges of the ESG market has been the lack of a unified criteria to determine whether an asset could be classified as ESG compliant, and the EU Taxonomy can help to solve this issue.

How is CaixaBank responding to ESG Capital Market developments?

At CaixaBank we support the paradigm shift on what sustainable finance entails. Our Wholesale Funding team is aligned with the bank's broader commitment to ESG, 79% of our Funding Plan being issued in ESG format in 2021, a significant increase from 19% in 2019, when our inaugural ESG bond was issued. CaixaBank has been the leading FIG ESG issuer in 2021, and it is the all-time largest ESG bond FIG issuer in the Euro unsecured market.

How have investors responded to the events of 2020-2021 from the ESG perspective?

Based on our own experience, we have seen an increased appetite for Green and Social Bonds. This has been reflected in two main ways. Firstly, in terms of participation in Primary markets, with 75% of investors being categorized as socially responsible investors (SRI). Secondly, we have received very positive and constructive feedback on the CaixaBank Bond Impact Reports published thereafter.

As part of its commitment to transparency, CaixaBank published its first Social Bond Impact report in 2020, which was followed by a second one in 2021, alongside a Green Bonds report in the same year. The reports, prepared in collaboration with Deloitte and independently audited by PWC, were very positively received by the market, with investors commending the level of detail and clarity, and their third-party verification.

With regards to the Green Bonds report in particular, investors appreciated the explicit mention of the EU Taxonomy alignment.

On the Social Bond reports, which are less standardized than the Green Bonds report, we made a significant effort to provide a best-in-class report, by providing a granular analysis of the portfolios, using both quantitative and qualitative impact calculation methods. The impact calculation using a quantitative method was carried out using the input-output model that provides a solid view of the direct, indirect, and induced effects of each million euros borrowed by CaixaBank. The qualitative impact was measured by a tailored survey through CaixaBank's borrowing' customers, which provides useful information about the microeconomic impact of each loan.

What needs to happen for the sophistication of ESG investment strategies to keep improving?

More and more investors are integrating ESG into their investment policies. In this sense, the Sustainable Finance Disclosure Regulation (SFDR) represents a significant milestone, defining requirements to market participants to integrate sustainability risks in their investment procedures, as well as transparency in the sustainable objectives and the impact of investment decisions.

A fundamental tool is the methodology applied by ESG Rating agencies, although we would welcome greater standardization in this field, as the approach can currently differ between agencies.

What topics are you especially curious about in the future of the sustainability debt market?

There are several topics to follow in the future, however, there are two key areas of focus:

Sustainability-Linked Bonds (SLBs), and whether investors will show a preference for traditional bonds with UoP in comparison to SLBs. It will be interesting to analyze the weighting of these bonds in the future to see if they will have a significant role in the ESG credit market. There is no doubt that the final position of the EBA regarding the MREL eligibility of this type of securities will be a pivotal point for the market itself.

The continuation of the EU regulatory process on Sustainable Finance with the pending Delegated Acts on Green finance, alongside the future of the Social EU Taxonomy. The EU Green Bond Standards, which will offer a touchstone for all issuers, and the Second Party Opinion Providers will be important factors in providing investors with a set of robust and credible tools.

What are the challenges in structuring Sustainable bonds?

Structuring an ESG Bond presents multiple challenges in any phase of the process. From our point of view, the greatest challenge relates to the quality of information and the ability to provide the investor community with all the relevant materials in a clear and reliable way. In our opinion, the main objective of all stakeholders (issuers, investors, arrangers etc.) in the ESG world should always be to identify the impact of ESG investments and their measurement, so it is important that they are provided with all the information available. Internally, we are continuously improving processes, classifying the existing and new assets portfolio based on ESG criteria, and thus ensuring the assets included in our Green and/or Social Portfolios meet the strictest eligibility criteria contained in our ESG bonds framework and its technical level alignment with the current Delegated Acts on Climate Change Adaptation and Mitigation.