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Securities Exchange Initiatives to Promote ESG Bond Markets

Introduction

Sustainable investment that takes into account environmental, social and governance (ESG) factors has been expanding on a global level in recent years. According to a report¹ published by the Global Sustainable Investment Alliance (GSIA) in September 2021, global sustainable investment had reached USD35.3 trillion as of the start of 2020, an increase of 15.1% over the previous two years and 55% over the previous four years.

Bond market-related sustainable investments can be divided into three distinct ESG bond market segments. Green bonds are used to procure funds for green businesses or projects, social bonds fund businesses or projects devoted to social contributions, and sustainability bonds fund both green and social projects' efforts. The world's major securities markets have been actively engaged in efforts to establish and expand these ESG bond market segments. According to the website of the Sustainable Stock Exchanges Initiative (hereafter, the SSE Initiative), 43 securities exchanges have established platforms fo-

cused on ESG bonds as of November 30, 2020.²

Securities exchanges' efforts to establish ESG bond platforms have been stimulated by the United Nations (UN)-led SSE Initiative, which was inaugurated in 2009 by former UN Secretary-General Ban Ki Moon as a forum for efficient dialog among the world's exchanges with the aim of contributing to the promotion of sustainable investments that will lead to the achievement of the UN's Sustainable Development Goals (SDGs).³

The SSE Initiative is a UN Partnership Programme organized by four UN organizations—the UN Conference on Trade and Development (UNCTAD), the UN Global Compact, the United Nations Environment Programme Finance Initiative (UNEP FI), and the Principles for Responsible Investment (PRI). As of November 30, 2021, SSE Initiative membership consists of 110⁴ of the world's securities exchanges, including the New York Stock Exchange (NYSE) and the London Stock Exchange Group (LSEG).

In addition to sharing a commitment to promote responsible investment, disclosure of ESG information about listed companies, and improvement of ESG performance, member exchanges regard the SSE Initiative as a forum for information sharing with other participating exchanges. For example, the Luxembourg Stock Exchange (LuxSE) has significantly increased its cooperative activities with other countries' exchanges since signing the SSE Initiative in February 2016.⁵ The Japan Exchange Group (JPX) became an

SSE Initiative member in December 2017. Soon thereafter, the JPX established its Sustainability Committee in July 2018 and in June 2019 began providing a Japanese translation of the SSE Initiative's "Model Guidance on Reporting ESG Information to Investors" as a reference for listed companies to consider ESG disclosure.

This article presents some examples of major securities exchanges' initiatives to establish platforms specializing in ESG bonds and funds, the special characteristics of those platforms, and some perspectives.

Platforms Specializing in ESG Bonds

Major securities exchanges around the world are introducing platforms specializing in ESG bonds. This article presents the platforms established in four of the world's major ESG bond markets: (1) LuxSE's Luxembourg Green Exchange (LGX), (2) the LSE's Sustainable Bond Market (SBM), (3) Hong Kong Exchanges and Clearing Limited's (HKEX) Sustainable and Green Exchange (STAGE) platform, and JPX's Green and Social Bonds Platform.

LuxSE's LGX

• Platform for the world's first green bond, issued by the European Investment Bank's (EIB)

LuxSE established LGX as a platform specializing in sustainable finance in September 2016, just nine months after the Paris Agreement was adopted at COP21 (21st Conference of the Parties to the United Nations Framework Convention on Climate Change) in France in December 2015. The Luxembourg government is engaged in various public-private partnerships related to sustainable finance, and LuxSE's establishment of LGX is an offshoot of the government's efforts.

Listings on the LGX platform initially were limited to green bonds, but issuance was opened up to social bonds and sustainability bonds in May 2017. In addition to bonds, ESG funds, social funds, green funds, etc., are now approved for inclusion on the LGX platform.

As a result, LGX-listed securities have steadily expanded. As of end-2020, 898 sustainable securities had been listed by 148 issuers from 34 countries, with total issuance reaching EUR389.0 billion.⁶ Green bonds account for the largest share of issues made to date, with 459 bonds raising a total of EUR182.4 billion. Other issues include 311 sustainability bonds (EUR22.5 billion), 60 social bonds (EUR71.5 billion) and 3 sustainability-linked bonds (EUR1.45 billion).⁷

A major contributor to the expansion in listings of sustainable bonds and funds on the LGX has been the EIB's posting of its Climate Awareness Bonds (CABs) on the platform, beginning with the first CAB listing in 2007, which also was the world's first green bond listing. In addition to its CABs, the EIB has posted all of its Sustainability Awareness Bonds (SABs) on the LGX. The EIB's postings have greatly contributed to the reputation of LuxSE and its LGX as a leading exchange for listing green bonds and sustainability bonds.

• Full utilization of certification labels, etc.

As LGX is a platform dedicated to sustainable financial instruments within LuxSE, issuers desiring to have their securities included on the LGX platform must first list the securities on one of the LuxSE's listing venues: (1) the European Union (EU)-regulated Bourse de Luxembourg (BdL) market,⁸ (2) the exchange-regulated Euro Multilateral Trading Facility (MTF), or (3) the Securities Official List (SOL).

Listings on LuxSE's BdL market and

Euro MTF can be traded within LuxSE. Registration on the SOL is simpler than listings on the LuxSE's two trading exchanges as securities registered on the SOL are not admitted to trading. Listings on the EU-regulated BdL market require submission of a prospectus that will also be used to provide the issuer with an EU passport that enables listings on other securities exchanges in EU countries. The passport, however, does not apply to Euro MTF listings.

Issuers desiring to have their securities posted on LGX also must classify the bonds to be displayed as green, social or sustainability at the time of application. Issuers are required to allocate the funds procured by their bond issues to green, social or sustainability projects that adhere to the bonds' classifications. Fund allocation and project classification must comply with the principles or guidelines outlined in the Green Bond Principles (GBP) and Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG) established by the International Capital Market Association (ICMA) and/or the Climate Bonds Standard (CBS) established by the Climate Bonds Initiative (CBI). Based on these principles, LuxSE will determine if the bond qualifies as an instrument for financing a green, social or sustainability project.⁹

The decision to approve inclusion in the LGX is made by an LGX team that considers securities listing standards, restrictions on the use of procured funds, reviews by external third-party organizations required by LGX, and the issuer's commitment to submit ongoing disclosure reports.

Issuers desiring to display an ESG fund, green fund, social fund, or sustainability fund on LGX must obtain one of the certification labels for funds specified by LGX (Table 1). The list of certified labels approved by LGX includes ESG labels, microfinance and other labels awarded by the Luxembourg Finance Labeling Agency (LuxFLAG), an independent non-profit organization in Luxembourg, as well labels from labelling institutions in other European countries, such as the French government's Energy and Ecological Transition for the Climate (Transition énergétique et écologique pour le climat, or TEEC) label and Label Investissement Socialement Responsable (ISR), as well as Germany's FNG-Label (Forum Nachhaltige Geldanlagen Siegel).¹⁰ LGX explains that funds that have received a designated certification label are considered as meeting LGX's criteria for sustainable funds.¹¹

LGX has adopted a mechanism to confirm if securities on its platform continue to meet its standards, including annual

reviews of the security's ability to maintain its certification labels.

LSE's SBM

• SBM includes a wide range of sustainable bond types

LSE's SBM was initially dedicated to green bonds when it was established in 2015. However, the range of bonds included on the platform has since been expanded to include sustainability and social bonds. Sustainability-linked bonds were added in June 2020 and transition bonds were included in 2021 (Figure 1). Transition bonds are a subset of green bonds and sustainability-linked bonds that are issued primarily by companies in sectors with high CO₂ emissions.

As of December 1, 2021, the SBM includes 336 bond issues. Green bonds are the most numerous type, with 187 issues (two of which are self-certified green bonds,¹² followed by 33 social bonds, 27 sustainability bonds, and four transition bonds. In addition to those issues, 85 companies have been pre-approved to register all issued bonds on SBM. In October 2021, the Republic of Korea (RoK) issued a EUR700 million five-year sovereign green bond on the LSE and had it registered on the SBM platform. The bond is the first euro-denominated green bond to be issued by an Asian government on the LSE. The RoK's issue continues a recent trend that has seen sovereign issuers selecting the LSE and SBM for their green bond issuance, including Mexico and Egypt, which issued the first sovereign green bond by a government from the Middle East and North Africa.

It should be noted that SBM is a platform that includes bonds listed on various existing LSE primary bond markets in order to promote visibility of sustainable debt finance instruments. It is not a distinct primary market newly established by the LSE.

• Conditions for admission of securities to SBM

First, the bond issue must be listed on one of the fixed income primary markets operated by the LSE. The LSE operates three primary bond markets: the Main Market (Regulated Market), the International Securities Market (ISM), and the Professional Securities Market (exchange regulated markets or multilateral trading facilities).

Second, from January 1, 2020, the LSE requires issuers that wish to be admitted to an SBM segment complete the SBM Declaration and Application Form, which includes the disclosure of information and

Table 1: Certification Labels that LGX-listed Funds Must Acquire

ESG Fund Labels			
Certification Label's Nameable	Country	Established	Outline
FNG Label	Germany	2015	Qualitative criteria for sustainable investment funds in German-speaking countries. Labeling is reviewed annually.
Label ISR	France	January 1, 2016	Introduced and supported by France's Ministry of Economy and Finance, this label is awarded after a rigorous review by an independent body and has become an indicator for investors who want to contribute to a more sustainable economy.
LuxFLAG ESG	Luxembourg	May 1, 2014	Awarded to funds that incorporate ESG criteria throughout the entire investment process while screening 100% of their investment portfolio according to one of the ESG strategies and criteria approved by LuxFLAG.
Nordic Swan	Nordic countries	1989	Introduced by the Nordic Council of Ministers for Consumer Affairs as a voluntary ecolabel to be used in Denmark, Finland, Iceland, Norway and Sweden.
Österreichisches Umweltzeichen	Austria	1990	Established by Austria's Ministry of the Environment with the aim of raising environmental awareness in the tourism and entertainment industry. This label is given to accommodation, catering, conference and event planning companies, etc.
Febelfin QS	Belgium	2019	Established by the Belgian Financial Sector Federation (Febelfin) as a label specifically focused on investment trust funds. It sets qualitative criteria for sustainable and social financial products.
Green Funds			
LuxFLAG Climate Finance	Luxembourg	September 1, 2016	At least 75% of the investment product's total assets must be allocated to investments that have a clear and direct link to climate change mitigation and adaptation or cross-cutting activities.
LuxFLAG Environment	Luxembourg	June 1, 2011	Awarded to investment products that invest in environment-related sectors in a responsible manner. Eligibility criteria require funds to have a portfolio in which at least 75% of the fund's total assets are invested in environment-related sectors.
TEEC	France	2015	In response to COP21, France's Ministry for Ecological and Inclusive Transition introduced this label to encourage the creation of green funds and to ensure the quality of all related investment trusts.
Social Funds			
LuxFLAG Microfinance	Luxembourg	July 1, 2006	The primary objective of this label is to reassure investors that the Microfinance Investment Vehicle (MIV) is actually investing, directly or indirectly, in the microfinance sector. Indirect investment means that the MIV can invest in other MIVs that invest more than 50% of their assets in microfinance, rather than lending directly to microfinance institutions (MFIs). Over 60% of the world's qualified MIVs have received the label.

Source: NICMR, based on various materials

documents related to the chosen classification of the bond to be admitted to the SBM.

As shown in Figure 1, the SBM has three broad entrance windows. The first is for bonds that have received a third-party verification aligned with ICMA principles or other eligibility standards that the use of funds is to finance green, social or sustainability-related projects. The second is for transition bonds that are using the bond market to procure funds for transition-related projects, including projects to mitigate climate change. These bonds may be classified as green bonds or sustainability-linked bonds. The third is for corporate bonds issued by companies that can demonstrate that their core business is a green business and generates 90% or more of the company's revenues. Companies that obtain this issuer-level classification will have all bonds issued under this framework admitted to SBM without having to apply for certification each time. In other words, all straight corporate bonds issued by companies generating 90% or more of their revenue from green business

will be considered green investments.

Criteria for determining eligibility for inclusion in SBM are at the sole discretion of the LSE.

HKEX's STAGE platform

- **A repository of ESG-related information and comprehensive data on the HKEX**

The HKEX established its STAGE on December 1, 2020. STAGE is positioned as a platform that serves as a repository for comprehensive data and ESG-related information related to sustainable finance and green finance. STAGE was established to create a comprehensive database of sustainable finance-related products that can be bought and sold on the Hong Kong securities exchange.

HKEX seeks to use STAGE as a platform for education and information exchange on sustainable finance. Accordingly, HKEX is promoting knowledge-sharing and collaborations in the field of sustainable finance between its stakeholders (issuers, in-

vestors, communities, and innovators).

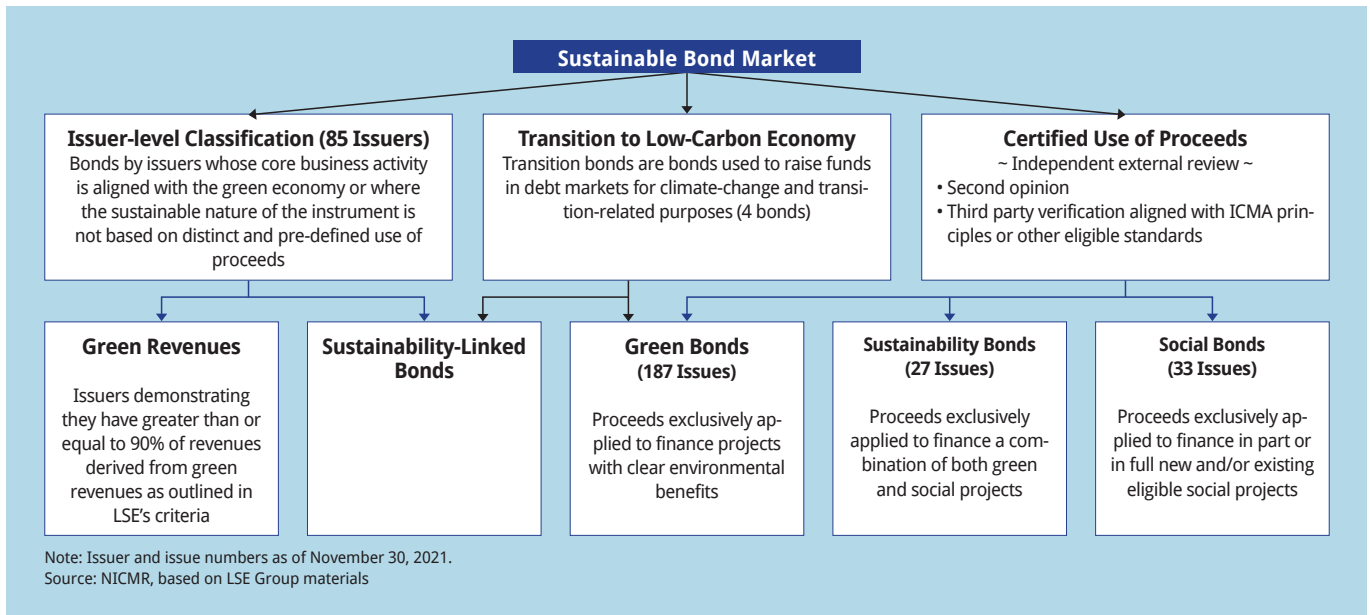
As of December 1, 2021, 84 securities are listed on the STAGE platform, including 69 green bonds, 2 social bonds and 2 blue bonds, 1 sustainable bond and 1 COVID-19 bond, 6 transition bonds, and 3 sustainability-linked bonds. Green bonds account for about 82% of all listed bonds. Listed securities include a wide range of trading currencies, from HKD and RMB to USD and EUR denominated issues.

When the market may grow outstandingly, HKEX has announced that it plans to expand STAGE-eligible products to a wider range of sustainable green finance products other than bonds and exchange traded funds (ETFs), as well as to derivatives linked to sustainability or ESG indexes.

- **Conditions for inclusion of securities on STAGE**

The first condition for having a security included in the STAGE repository is to list it on HKEX's main bond market. Next, the issuer must fulfill the following five re-

Figure 1: SBM Structure



quirements: (1) clearly designate the classification of the bond (sustainability bond, green bond, or social bond) to be displayed on STAGE, (2) indicate the international standards or principles to which the issued bond complies, (3) submit a document outlining the bond framework, including the details of the selected project, how the procured funds will be managed, and the reporting process, (4) submit a review of the bonds to be listed by an external evaluator,

and (5) submit an annual report on the allocation of funds and expected impacts.

JPX's Green and Social Bonds Platform

On January 22, 2018, the Tokyo Stock Exchange (TSE) established its Green and Social Bonds Platform within its TOKYO PRO-BOND Market.¹³ As of November 29, 2021, a total of 14 bonds have been included in the platform, including 2 green bonds and 12 social bonds. Both green bond is-

suers were issued by the Japan Finance Organization for Municipalities, and all the social bonds were issued by the Japan International Cooperation Agency. The TSE's Green and Social Bonds Platform is positioned as a disclosure platform where issuers, at their discretion, post information related to their green bonds and social bonds listed on the TOKYO PRO-BOND Market (Table 2).

Table 2: Bond Issues on TSE's Green and Social Bonds Platform

Listing Date	Issuer	Use of Proceeds	External Reviewer	Other Information
September 28, 2021	Japan International Cooperation Agency (JICA)	Projects with a main objective of promoting gender equality and empowering women	Japan Research Institute, Ltd.	Gender bond (social bond)
June 30, 2021	JICA	Projects supported by JICA's Official Development Assistance (ODA) Loans and Private Sector Investment Finance activities (excluding coal-fired power generation projects)	Japan Research Institute, Ltd.	
February 3, 2021	Japan Finance Organization for Municipalities	Sewerage projects	Vigeoeiris	
December 28, 2020	JICA	Loans to developing countries to support countermeasures against infectious diseases, including COVID-19, and mitigate the impact on small and medium-sized enterprises	Japan Research Institute, Ltd.	Social bond for COVID-19 countermeasures
February 13, 2020	Japan Finance Organization for Municipalities	Sewerage projects	Vigeoeiris	
September 24, 2019	JICA	JICA's finance and investment activities in Africa	Japan Research Institute, Ltd.	Tokyo International Conference on African Development (TICAD) bond (social bond)
8 issues from June 29, 2018 to September 29, 2020	JICA	JICA's finance and investment activities in developing countries	Japan Research Institute, Ltd.	

Note: As of November 29, 2021.
Source: NICMR, based on JPX materials

Key Points for the Future Development of ESG Bond Platforms

The examples above indicate that platforms specializing in ESG bonds tend to be positioned as repositories of information necessary for making investment decisions on sustainable finance-related products in ESG bond markets. The inclusion of ESG bond issues on all the platforms introduced in this article—LuxSE's LGX, LSE's SBM, HKEX's STAGE, and JPX's Green and Social Bonds Platform—requires that the bonds be listed on the existing bond market segment of each securities exchange and that the bonds and their issuers meet all the conditions for inclusion on the market's platform specializing in sustainable bonds. The platforms may be considered an effort to enhance the visibility of sustainable finance-related products listed on each stock exchange. Rather than limiting inclusion on the platform to bonds listed on one specific bond market, as is the case with JPX's platform open only to bonds listed on its TOKYO PRO-BOND Market, most securities exchanges follow the LGX example of opening their ESG platforms to bonds issued on several bond markets.

Investors considering investing in sustainable finance-related products can efficiently access a wide range of investment-related information posted on the ESG bond platform of the related stock exchange. The ability to obtain a wide range of information on sustainable finance-related bonds on each exchange's webpage undoubtedly will help promote the development of the market for such bonds.

However, if many of the world's securities exchanges establish similar platforms, we will want to observe the characteristics that differentiate one securities exchange's platform from those of other exchanges. An example of differentiating characteristics is the LuxSE's LGX platform's inclusion of all CABs and SABs issued by the EIB and its use of existing certification labels as a requirement for listing funds, which makes it easier for issuers to meet LGX's unique requirements for sustainability-related listings.

The development and enhancement of ESG bond platforms can be expected to continue, and another key point to watch

moving forward will be how these efforts contribute to expanding the market for sustainability-related securities.

Notes

- 1 *Global Sustainable Investment Review 2020*, the latest edition of GSIA's biennial review.
- 2 As per the SSE Initiative website's listing under "Has sustainability bond listing segment" (<https://sseinitiative.org/exchanges-filter-search/>).
- 3 Five securities exchanges have been members of the SSE Initiative since its establishment—the USA's Nasdaq exchange, Turkey's Borsa Istanbul, South Africa's Johannesburg Stock Exchange, Egypt's Egyptian Exchange, and Brazil's B3 (BM&F BOVESPA at the time of the SSE Initiative's establishment).
- 4 As per the SSE Initiative website (<https://sseinitiative.org/exchanges-filter-search/>).
- 5 LuxSE has entered into cooperative agreements with other SSE Initiative participating exchanges, including China's Shanghai Stock Exchange and Shenzhen Stock Exchange, Chile's Bolsa de Comercio de Santiago, and Nigeria's FMDQ OTS Securities Exchange.
- 6 LuxSE, "Sustainability Report 2020".
- 7 The 65 other securities listed on the LGX include 55 ESG funds, 3 social funds, and 7 green funds. (LuxSE, *Sustainability Report 2020*).
- 8 BdL market listings must be preceded by the filing of a prospectus that conforms to the EU's Prospectus Directive and Transparency Directive and is approved by the Commission de Surveillance du Secteur Financier, Luxembourg's financial regulatory authority.

- 9 Chinese domestic green bonds displayed on the LGX must conform to guidelines set by the People's Bank of China (PBOC) or other Chinese regulatory authorities.
- 10 Funds that have received a certification label other than labels officially recognized by LGX may be approved for inclusion on the LGX platform if an LGX evaluation of the certification label determines that it meets the platform's criteria.
- 11 LGX may require fund issuers provide other relevant information about their fund in addition to a certification label.
- 12 Issues by PBOC and the European Bank for Reconstruction and Development (EBRD).
- 13 The TOKYO PRO-BOND Market is professional-oriented bond market based on the "professional markets system" introduced in a 2008 amendment to the Financial Instruments and Exchange Act. Compared with the main market, the TOKYO PRO-BOND Market reduces issuers' disclosure burden and provides a more flexible framework for bond issuance. Accordingly, the purchase of bonds listed on the market is limited to investors that have qualified as specified investors and to non-residents of Japan.



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