ESG and sustainable finance opportunities in Canada

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Environmental, social and governance (ESG) has progressed from optional to essential as a factor in contributing to business success both in Canada and around the world. The ESG market is already huge in Europe and quickly gaining a foothold in Canada, due in part to sustainable finance opportunities.

BLG recently hosted the first in its 2021 Environmental Social Governance Thought Leadership Webinar Series, “Sustainable Finance in Canada,” with participants discussing green bonds and green loans, social bonds, and sustainability-linked bonds and loans. The panellists were:

- Ian Howard, Global Commercial Director, Sustainable Finance Solutions, Sustainalytics a Morningstar company
- Dana Krechowicz, Senior Sustainable Finance Manager, HSBC Bank Canada
- Tiffany Murray, Partner, Financial Services, BLG

Moderating the discussion was:

- John Vellone, Partner and ESG Group Head, BLG

The session began with a primer from Tiffany Murray on various sustainable finance terms, including:

- **Green bonds/loans** are those whose proceeds must go towards “green” or sustainable initiatives. Reporting is required to track the use of funds.
- **Social bonds/loans** raise funds for projects with dedicated social benefits.
- **Sustainability bonds** use their proceeds for a combination of environmental and social benefits.
- **Sustainability-linked bonds/loans**: The use of proceeds is not a determining factor when categorizing these bonds/loans as sustainability-linked bonds/loans. Proceeds can be used for general corporate purposes, but measureable targets and outcomes are created (e.g., increased energy efficiency or decreasing water consumption). The borrower's performance against these targets is linked to the interest rate on the bond/loan.

What is the current sustainable finance landscape?

- The ESG market is still in the early stages – as recently as eight years ago, there were hardly any green bonds available.
- In the past year, there has been tremendous growth and interest in sustainability-linked structures.
- The demand for sustainability-linked loans is highest in Europe, accounting for almost 71 per cent of the market in 2020. The Americas as a whole (including Canada and the United States) made up 16 per cent of the market for sustainability-linked loans.
- When a company is ineligible for green, social, or sustainability bonds, sustainability-linked loans come into play. Sustainability-linked loans are a way for companies to transition away from higher-carbon activities by setting specific targets to reduce their impact on the environment.

What are some of the biggest opportunities for Canada in sustainable funding over the next few years?

- A large opportunity is using sustainability-linked products to attract capital for crucial projects in Indigenous communities.
- The Canadian government announced it plans to create regulations to support developing the national carbon offset market. There is increased interest in how carbon offsets play into financing structures.
- Mirroring what is happening on a global scale, there is more focus in Canada on tangible outcomes and the impact of green financing. These benchmarks are easier to measure and report on in a more quantifiable way than in the past, and communicate to the market the real impact and benefits of green financing.

How have the key metrics used to evaluate ESG performance changed over time?

- Due to advances in artificial intelligence (AI), Dana Krechowicz said companies such as Truvalue Labs are providing more “momentum scores, which are more like a real-time look at the market sentiment of a company.” These scores take into consideration a company’s reputation based on news stories and other sentiment indicators.
- According to Sustainalytics’ Ian Howard, the way the company evaluates ESG initiatives has become more standardized and accessible, with a noticeable increase in usable data.
- Asset-level data, which looks at a company’s assets, is another development. This approach explores a company’s physical assets, and the amount of carbon emissions they produce and their exposure to physical climate risk.
- Within the next few years, Ian believes governments will start requiring increased mandatory disclosures on environment- and ESG-related information.

What does the future hold for sustainable finance opportunities?

- Disclosures will become increasingly standardized and governments more involved in their implementation. This will allow for direct comparisons between companies across the same industry. With standard disclosure requirements in place comes improved quality and availability of data on companies and their ESG activities.
- Sustainable financing will be increasingly used to support companies in meeting decarbonization goals.
- ESG regulations and standardization will likely happen across the globe. The EU is leading the way by increasing the stringency of standards for issuing green bonds.

Stay tuned for an announcement on the second webinar in the Environmental Social Governance Thought Leadership Webinar Series.

Watch the webinar below

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