TODAY’S REALITIES
THE AMBITIONS OF SUSTAINABLE DEVELOPMENT
CAPITAL MARKETS UNION
A CHALLENGING PLAN FOR THE EUROPEAN COMMISSION
BUSINESS DRIVERS
THE EMERGENCE OF NEW OPPORTUNITIES
ECONOMIC REVIEW
LOWER FOR LONGER

SUSTAINABILITY:
A NEW BUSINESS PERSPECTIVE?

#6 MARCH 2016
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**Editor in chief:** Thierry Bujon de l’Estang  
**Editor:** Anne Selles  
**Thank you to all contributing writers**

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What do you think about when you hear the word Sustainability? It could be a new trendy way of life, a promising organic diet, a newly developed type of vehicle, some innovative recycling initiative or a more respectful approach towards the environment... Sustainability has obviously different facets, hence the multitude of definitions it can be given.

From a general point of view, sustainability can be defined as the capacity to operate and live indefinitely without compromising future generations’ ability to do so as well. Over the past years, it has become a major concern across the world in all sectors and industries. Awareness is growing, people are more concerned about the future of the planet, and they don’t hesitate to demonstrate their engagement. Intertwined with geopolitical considerations, sustainability is also very much supported by numerous governments. The COP 21, which took place in Paris in December 2015, is one conference mirroring the world’s mobilisation for a better and safe environment.

Be it agriculture, construction, automotive and leasing, or corporate banking, sustainability is synonymous with long-term relationships, leading to growing dependency between the corporates and their business partners. In parallel, some companies invest a lot in research and development to support strong ambitions in terms of green action and forecasting capabilities. For many, Corporate and Social Responsibility departments are getting stronger and are empowered with strategic missions at company level. It has clearly become key to manage the environmental impacts of our activities to better drive our future.

BNP Paribas’s corporate culture is built on the ground of a rigorous approach to risks (credit, counterparty, operations, etc) and to Compliance & CSR. Our ambition is to leverage on this culture to create long-term, sustainable relationships with our clients. Being a demanding institution does not contradict our clients’ interest, it is the opposite! Being demanding and rigorous converges with our clients’ long-term development; this is what defines ‘partnership’ and that’s BNP Paribas’s vision on Sustainability.

We hope you will enjoy this new edition of Focus. In this issue, we invite you to read through several initiatives where sustainability is not a mere concept anymore, but materialized acts & facts standing as positive business drivers.

**MARGUERITE BURGHARDT**
Head of Strategy and Products, Corporate Trade and Treasury Solutions
SUSTAINABILITY: THE FUNDAMENTAL CHALLENGE

Virginie Pelletier, Head of CIB Corporate Social Responsibility at BNP Paribas, outlines the challenges of sustainability for both corporates and investors, and explains how the agreement of the COP 21 will foster the transition towards new business models.
A TIPPING POINT

We are at a tipping point on sustainability. Climate change is the most complex and challenging of the sustainability issues and will be highly disruptive for corporates. Not only does the world need to curb global warming and GHG emissions, but it needs it to be done in a record time. The target set by the United Nations to stay below a 2°C warming limit will require a 50% to 70% reduction in GHG emissions by 2050 – a very ambitious target.

The COP21 negotiations ended with an agreement approved by 194 countries setting post 2020 climate actions covering over 90% of the world GHG emissions. The awareness among both public and private sectors across the world has now reached an unprecedented level. A vast majority of countries have announced detailed plans to curb the GHG emissions via new regulations as well as the set-up of emission trading schemes and carbon markets.

Beyond global warming, the resource scarcity is likely to challenge current economic models in the coming decades.

“Our planet and our society are at risk”, as stated by Paul Polman, CEO of Unilever. “Business has a historic opportunity and responsibility to lead the world down to a more just, rich and sustainable path. We cannot choose between economic growth and sustainability – we must have both”.

Large corporates are becoming increasingly concerned about their environmental and social impact and are dedicating resources to improve their footprint. More than 90% of CEOs believe that sustainability is important for the future success of their company (UN Global Compact – Accenture study 2013). In 2014, three-quarters of S&P 500-listed firms published corporate sustainability reports – dramatically up from 20% in 2011.

The interconnection between economy, society and environment is more than ever a focal point to safeguard firms’ long-term strategic interests.

INCREASING PRESSURE FOR CORPORATES

Sustainability is entering into a new era which is driven by a considerable pressure from society and a much greater public awareness of environmental issues. Corporates are under the pressure from all stakeholders: regulators, customers, shareholders, employees and rating agencies.

New laws and environmental standards are being passed in an attempt to foster the transition to a low carbon economy. Regulators around the world, including the European Central Bank, Central Bank of the Republic of China and the Bank of England, are looking into climate change as an emerging risk for the financial system.

Shareholders are increasingly engaged and questioning the governance as well as the CSR policies implemented by listed corporates. In the wake of COP21, a new trend has been set by the world largest European and US pension funds and insurance companies towards decarbonisation of their portfolios: Allianz, Axa, Caapers, Norges Bank, AP funds are leading the pack and divesting from coal-fired plants and other so-called “stranded assets”. What will be the impact on the future stock price of these corporates? To what extent will it jeopardize funding sources?

Over the past two years, the FTSE has developed a model able to rate listed companies based on

“The resource scarcity is likely to challenge current economic models in the coming decades.”
their “green” business. Numerous stock indices have begun to integrate a sustainable component (Environmental, Social and Governance criteria), including the emergence of sustainable indices such as FTSE4Good and MSCI. When will these indices become benchmarks for asset owners?

The latest pressure comes from leading rating agencies, namely Moody’s and Standard & Poors. They recently announced they will introduce extra-financial criteria in their methodology to assess corporates’ business models and credit rating and more particularly the risks linked to climate change.

This underlines the belief that sustainability issues directly translate into both business risks and opportunities.

**CAPTURING BUSINESS OPPORTUNITIES**

Tackling global warming will require a profound shift in business models for some industry sectors, starting with the power sector. The IEA estimates that the world capacity of renewable energy should be multiplied by three. The transition to a low carbon economy will profoundly transform the power sector in the coming decades. We can expect new rising stars in renewable energy as well as the so-called “smart grid” and energy storage universe.

The IEA also predicts that energy efficiency should be multiplied by eight before 2030. Ahead of real estate and transportation, the industrial sector is by far the largest energy consumer, representing over 50% of the world energy consumption. We expect corporates to formulate strong energy efficiency plans, capturing the opportunity to cut operating costs and lower their exposure to volatile energy prices, in particular, but not exclusively, in the most energy intensive sectors such as the metals and mining industry.

Sustainability is also about capturing business opportunities, client franchise and enhanced branding. The most environmentally friendly supply chain often
provides an enhanced value proposition for the customers, meeting the increasing demand for equitable products, organic products, transparency and safety. It could also soon become a necessity to attract, recruit and retain “millennial” staff. The most sustainable firms, such as Kering or Unilever, have already fully recognised that transforming their supply chain is the ideal way to differentiate themselves and set a competitive advantage.

**SECURE COMPETITIVE FUNDING SOURCES**

In this changing and challenging world, corporates are facing sustainability issues which may soon become highly disruptive. Securing stable and competitive financing solutions is vital for those sectors where the transition to a new business model is required.

Corporates would certainly benefit from the high quality of their sustainability policy. Neglecting this aspect could be detrimental to secure private funding resource. The difference may well be set by shareholders and bondholders in the light of the sustainability strategy of the corporate. “Sustainability is not just a branding matter for corporates. Sustainability is also about securing access to capital.”

One of the most prominent financing solutions is the Green bond market which has made great strides in size and stature. Beyond green bonds, BNP Paribas financing solutions can help companies build resilient and sustainable business models. BNP Paribas is already advising and helping corporates to diversify their investor base and secure competitive funding for their projects with positive impacts on the environment and society.

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**“Sustainability is not just a branding matter for corporates. Sustainability is also about securing access to capital”**

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**BNP PARIBAS’ ENGAGEMENT**

In 2015, the Bank is taking a step further in its engagement towards a low carbon economy.

The Bank will dedicate €15bn in the financing resources allocated to renewable energy sector by 2020. This is equivalent to more than double today’s resources.

The Bank will support energy efficiency and clean technology by investing €100m in start-up companies by 2020. The Group will target in particular innovative companies working to develop solutions in areas such as energy storage and smart grids.
INNOVATION AND SUSTAINABLE DEVELOPMENT: TWO PILLARS TO BUILD REAL ESTATE FOR A CHANGING WORLD
The building industry accounts for 28% of carbon emissions in France. This is one of the reasons why real estate companies such as BNP Paribas Real Estate integrate CSR and Innovation in their development strategy. We develop solutions to anticipate and respond to climate and environmental issues, but also to meet the new requirements and customer usage (whether investors, companies, individuals or local authorities) and therefore play a key role in urban transformation.

ONE RESPONSIBILITY, ONE VISION

As a company covering the entire life cycle of real estate, we consider it our duty to integrate our collective vision into the broader scope of the real estate of a new and sustainable city. The way we live is changing; new technologies are shaping behaviour and making it easier to communicate. The city must evolve and connect all of its stakeholders.

As a responsible company, we have been making these changes for many years at the building level by designing them to be energy-efficient and respectful of both the environment and their occupiers. For example the ZENORA office building, that our teams have built and marketed in Paris suburb, has been awarded International Outstanding BREEAM certification (design phase) with the highest European score so far (93.2%) for the NODA building, followed by VEGA with 87.7%.

REINVENTING REAL ESTATE LIFE CYCLE

It is not only about considering real estate in its life cycle, but also integrating it into the urban renewal process. More than ever, we have to comprehend the economic, social, environmental and political aspects inherent in a sustainable city. With the current economic constraints, the urgency is to integrate the climate change, the energy transition, and respond to urban densification. This change in scale is a real model shift for all stakeholders of the city: from public authorities to occupiers and of course companies operating in the real estate sector.

THE CITY OF THE FUTURE

A sustainable city can take many shapes and forms. It encompasses as many cultures and innovations with as many projects as there are cities. The role of our real estate professions in terms of sustainable innovation is essential. Public authorities are often called upon to tackle the challenges represented by cities of the future, but whatever their means or motivation, they will only succeed if built with real estate operators, users, designers, local authorities, innovators and entrepreneurs, while ensuring an international perspective.

We design buildings in their life span, thinking of their future uses and links with the neighbourhood, the city, visitors and residents. From the start, we consider the convertibility and mix of uses for these buildings.

As good example, is the “Reinventing Paris” call for tender organised by the City of Paris. It has been an excellent exercise for our company and for our sector to demonstrate how cities will evolve over the coming years by offering complementary solutions and services involving users in a customised experience, taking into account the city of tomorrow, that will be socially responsible, environmentally-friendly, generous, multi-generational and open to all its inhabitants.

BNP Paribas Real Estate won with the project “Ternes-Villiers: the multilayer city” (see picture). It proposes innovation in terms of uses. We design pluralistic buildings that are convertible and intelligent, innovative in ways of living (by proposing shared and user-friendly spaces), in ways of working (by encouraging the employee’s well-being, taking into account the new behaviours (co-working, remote working, incubators), and in ways of doing business (with showrooms, fablabs and ephemeral shops).

The environmental criteria is also a fundamental element in such projects by reducing carbon footprint, encouraging biodiversity and circular economy.

Catherine Papillon

Catherine Papillon is Global Head of Sustainable Development/CSR at BNP Paribas Real Estate. She was appointed in September 2015 after several years as Global Head of Communication of the entity. Her mission is to implement a CSR policy and to ensure its integration in all activities and alignment with stakeholders’ needs.
SUSTAINABLE MOBILITY: A NEW BASIC FOR OPERATIONAL LEASE?

Aurélie Bruneau, CSR Manager at Arval, outlines how the leasing sector can have an impact on the environment and the society. Mobility optimization is a key factor in the future developments of the industry.
According to the International Energy Agency, the transport sector accounted for 23% of CO₂ emissions worldwide in 2013, making it the second biggest emitter after the Electricity and Heat Generation sector. Road vehicle emissions represented 75% of these emissions.

According to the Association for Safe International Road Travel, nearly 1.3 million people die in road crashes each year.

Given this data, it is clear that actors from the transportation sector and the automotive industry in particular have great responsibility towards the environment and society. Arval, as a leader of the full-service leasing industry, with a fleet of 949,000 vehicles, does not escape this statement.

Vehicle leasing companies, because of the nature of their business, can have a very particular role to play. Corporates that benefit from vehicle leasing services can rely on a close and trustful relationship developed along the whole lifetime of their contracts with their supplier, as well as its expertise on mobility.

This particular relationship allows them to develop proactive solutions to face their environmental and social issues linked to the mobility of their employees. The beneficiaries are not only the institutions that pay for the leasing services, they are also the individuals who manage the fleet and the drivers who use the vehicles on a daily basis.

That is why Arval proposes a complete offer of mobility optimization solutions which give evidence every day of their effectiveness in all areas of Sustainable Development.

Optimization starts by the choice of vehicles adapted to the need of the company and what use drivers will do with these vehicles. Receiving advice from experts on the latest innovations in engine efficiency and alternative fuel, Corporates can choose the vehicles that best suit their needs. Electric car development will be a major factor of transport sector de-carbonization but improvements are still to be made for electric to become the main source of cars energy.

Due to the technological and infrastructure limits, electric vehicles currently represent only a small share of the market. However, they already are a competitive solution for some specific needs. For instance, when drivers travel for short distances within urban territories, electric cars already represent a perfectly rational economic choice as well as an environmentally respectful one.

Besides the choice of vehicles, developing an efficient Company Mobility Plan is another activity in which the leaser can help. The idea is once again to optimize the mobility of the people by taking into account all possible modes of transportation, including public transports, and new solutions such as car sharing. Thanks to this approach, Corporates can rationalize their travel costs, reduce their carbon footprint while bringing to their people efficient mobility solutions and thus, making their life easier.
Managing a fleet is a complex task and providing tools to understand it all is part of the leaser mission. Thanks to a consultative approach, the leaser supports Corporates in further reducing their CO₂ emissions and costs. The first step of this approach is to calculate the fuel expenses over a year as well as the equivalent amount of CO₂ emitted.

Development of digital tools such as telematics eases the production of detailed analysis of overall fleet costs and carbon emissions but also of individual drivers’ behaviors. Following on from this analysis, companies and Arval, jointly, are able to establish quantitative reductions targets.

The second step is to provide Corporates with solutions to reach these objectives. Among them, specific attention is given towards the drivers whose behavior has great impact. Raising awareness through dedicated campaigns within the customers’ organization and providing drivers with environmentally respectful driving training has shown positive results in both reducing the cost associated to fuel consumption and carbon emissions. The third and final step is to produce regular reports to ensure that performance maintains over time.

Road Safety is another issue directly related to the leaser activity. Road accidents cost money and above all, they can have dramatic consequences on individuals. That is why many efforts have to be made to reduce the risk of accident and once again the leaser can support Corporates in this task.

A similar consultative approach than the one used for carbon emissions has proven to be an effective strategy. Raising awareness and train drivers to safer driving behavior are key factors to avoid accidents. From repeated experiences with different customers, Arval has observed that several years after the program was implemented, the number of drivers without any incidents tend to double. The fewer incidents that happen, the fewer chances for accidents to be very serious and lethal.

Accompany its customers in implementing effective mobility solutions, respectful of the environment, careful for its people while reducing cost associated to mobility is at the heart of Arval’s mission. Sustainable Development is incorporated at every level of Arval’s business.

“Raising awareness through dedicated campaigns within the customers’ organization and providing drivers with environmentally respectful driving training has shown positive results in both reducing the cost associated to fuel consumption and carbon emissions.”
When it comes to cash management, I never miss an opportunity to show how our business is driven by talent, by people, and therefore, by relationships. And relationships are built on trust, which requires time and sustainability.

Sustainability is probably the most important thing about cash management, whether you are the bank providing the service or the customer who gains from it. To understand the big picture, one must be familiar with the nature of our activity, which, if you are not in-or connected to- our line of business, will probably be somewhat of a challenge.

Choosing a cash management bank, namely a bank that can support your development over time, which in today’s world means accompanying a corporate’s growth strategy across the geographies and over the years, is no small decision.

Selecting a banking partner to manage the liquidity of an organisation, especially one that operates in a multi-country or global environment, is everything but a technical step. On the contrary, it is a very time consuming and risk-prone process that requires months of analysis, benchmarks, discussions, systems implementation, migration...

It is quite important to understand this, because there is still a widespread belief that cash management is essentially a technical activity. Like you would press a...
“Relationships are built on trust, which requires time and sustainability.”

button, and the miracle collection factory of the 21st century would be here, right in front of you! Such perception is not entirely wrong—connectivity in our business is a very big thing; but it is undeniably partial and restrictive.

Another reason why building a sustainable relationship with customers is a must for a cash management bank is because the bank’s mission is to support corporates in a constantly changing world. This means that although banks must respond with the smartest solutions to the needs of their clients today, they must also reach forward and anticipate with and for them. Some banks are in a pole position to do this because they constantly watch how the market evolves and which technologies have the potential to change the game. And not only do they observe, but they get involved in leading initiatives with a range of players, from innovative newcomers to regulators, so they can be proactive and help their customers stay ahead.

Today more than ever, we know that we can rely on BNP Paribas’ continuous investment in cash management to build the long-lasting, trust-driven relationship that is the key to success.
Capital Markets Union is the new buzz-word in Brussels. This time round, we are not necessarily going to talk about a new “tsunami” of regulation that is going to hit the market. We are going to talk about growth: the next big focus of the European Commission.

We are familiar with the story: we went through a major financial crisis, combined with a global recession. On top of that, Europe had its sovereign debt crisis with yet another economic recession on the follow.

After the crisis of 2007-2008, financial stability was the key priority for the European Commission. In order to restore that stability, the resilience of banks needed to be strengthened and systemic risk in the markets needed to be contained, which had Brussels produce that famous “tsunami” of regulation.

Today, most of the work to make banks and markets stable again is done and the respective legislation has been or will soon be implemented.

The next item on the European Commission’s to-do list is now to create growth. Therefore, corporates need to grow their businesses, invest and expand.

Historically, corporates have been very much dependent on bank lending if they want to expand. However, on the back of capital and liquidity requirements imposed by bank regulation, some banks have found it more difficult to fulfil their role of traditional lender. Seeing their bank funding channels drying up, larger corporates turned to capital markets, but did not always meet favorable borrowing conditions and interested investors. For some of the smaller corporates, getting funding had become as good as impossible. A survey done by the ECB and the European Commission in 2014 on the access to finance of enterprises (SAFE) showed that 35% of SMEs did not get the full financing they asked their banks for in 2013.

Looking at the US, we notice that corporates get about three quarters of their funding directly from the capital markets, and rely only to a small extent
on bank lending. In Europe the situation is the other way round. So Europe wondered if they could create a funding landscape that would resemble more the US situation. That would mean that those in need of financing would meet directly with those that have money to invest. It would reduce the dependency of the real economy on banks, which would again contribute to financial stability. However, what is needed in that case is a harmonized, well integrated capital market in Europe. And now that is exactly where there is need for action! And this is where comes in the initiative of the European Commission: build a Capital Markets Union.

So in short, this is what CMU is about: it is a plan to create a single market for all 28 Member States of the European Union, where, on the one hand, funding choices for corporates will be diversified beyond bank lending and where, on the other hand, investment opportunities and the investor base will be broadened.

Let me also tell you what it is not about:

- it is not about banks: while these will still have to play an important role, the focus is really on corporates and investors and on markets facilitating the match between the two. Banks will not find themselves redundant in the future European financial market, but their role will gradually change.
- it is not about regulation: the European Commission will invite the industry to come up with market-lead solutions, best practices. Legislation will not always be the right answer and the European Commission only intends to install it if that seems the appropriate approach.
- it is not about creating a sort of “banking union”, which is a pure financial stability concept that foresees risk mutualization and supervision of banks. CMU does not look to set up any new supervisory institutions.
“(...) CMU it is a plan to create a single market for all 28 Member States of the European Union, (...)”

- it is not a single measure; call it rather a project, with the European Commission in the role of the project manager, setting objectives, priorities, short term and long term actions. As far as the timing of the project is concerned, the Capital Markets Union should see the light by 2019.

So what’s the plan?

“The Plan”, which the European Commission published in October last year, sets 4 clear objectives:

1. Support job creation and growth  
2. Connect financing effectively to investment projects across the EU  
3. Make the financial system more stable  
4. Deepen financial integration and increase competition.

“The Plan” also defines 5 priority areas for action, with over 30 different initiatives for reviews, assessments, reports, initiatives and legislative proposals, all to be taken between now and sometime in 2018.

The first priority is to provide more funding choices for Europe’s corporates and SMEs. Here we will see initiatives to support venture capital and innovative forms of financing, such as crowdfunding. The EU is also thinking about ways to provide necessary data on SMEs to investors, so that they can make well informed investment decisions.

Second, long term investment has to be promoted. An initiative here is to make sure that capital requirements for insurers are reviewed so that they see their investment needs more efficiently met. Measures will also be taken to promote investment in infrastructure projects.

Third, the range of investment choices both for retail and institutional investors has to broaden. In this area, we will see, amongst others, incentives to promote pensions savings and private placements.

The fourth priority is to enhance the capacity of the banks to step up lending. This may sound contradictory, as the idea of the CMU is to move away from traditional lending. However, for a lot of SMEs, banks will still remain the prime source of financing. So Europe wants to make sure that banks can offload more assets from their balance sheet so that they have extra space to lend.

And lastly, the EU wants to dismantle barriers that would hamper cross-border investment across the Member States. This is quite an ambitious area, where certain tax issues will be tackled, and where we will see a certain harmonization as far as national insolvency laws and securities laws are concerned.

At the same time of the publication of “The Plan”, the European Commission issued a couple of legislative proposals and 3 consultations, as a matter of launching the short term actions right away and getting the train out of the station.

The European Commission takes immediate action in the field of securitization. This may seem quite controversial as some will still consider this as the root of all evil. However, it is a critical tool to finance the economy and it sits high on the Commission’s agenda. In order to kick start the securitizations market, the EU has come up with a legislative proposal, the purpose of which is twofold. First,
it aims at reinstalling confidence. Therefore, a quality label is introduced: “Simple, Transparent and Standardized” securitizations. That means that any “STS” securitisation will comply with over 20 different standards, thus helping investors to better understand these products and ensuring quality. Second, it incentivizes banks to restart the activity again by giving these STS securitizations a better capital treatment, compared to other forms of securitisation.

Next to that, the EU has issued a proposal to adjust Solvency II rules for insurers, so that they would have to deploy less capital when investing in long term infrastructure projects or in European Long Term Investment Funds (ELTIFs).

Also note that the European Commission is looking into covered bonds. Currently there are 26 different covered bond frameworks in the EU, an area which could possibly benefit from a certain level of harmonization. While the idea is not to create a single framework for Europe, the Commission would look to promote best practices, step up transparency and remove barriers that would hamper cross-border investments. We also saw a consultation venture capital and a call for evidence on the cumulative impact of financial legislation.

In the medium term, a review of the Prospectus Directive is on the cards. This is a logical move, given that the EU would like to attract many more corporates directly onto the capital markets to issue debt. Making prospectuses cheaper and less burdensome for smaller issuers on the one hand and more user friendly for investors on the other hand, would be a welcome help in that respect.

Another initiative is a Green Paper (this is a first, general exchange of views between the EC and the industry to explore a certain topic) on Retail Financial Services. Here he European Commission is exploring ways to enhance competition and make sure that consumers have access to a broader range of services in order to get the best deal around, when it comes to mortgages, savings products, insurance, banks accounts etc.

In the long term, count 2017/2018, we can expect further steps to support SME growth markets and
private placements, along with plans for a pan-
European Pension Fund. As already mentioned
earlier, matters regarding withholding tax
and insolvency law will get attention as well.

All in all, CMU certainly has a fully packed and
ambitious agenda.

Now what’s in it for corporates, really? Potentially a lot.
However, we appreciate that the road to a real CMU
may be a far longer one. 2019 seems awfully close for
some of the changes to happen. Rebalancing financial
intermediation for example will most probably be a
gradual, organic process that will go hand in hand
with political interests, FinTech developments etc.,
rather than a major shift on a particular point in time.
Also, it will need a change in mindset and behavior
by all stakeholders involved.

The effects of a CMU may be more pronounced for the
corporate sectors of certain countries with relatively
small capital markets. For these countries, some of
the initiatives could be particularly beneficial. Their
domestic capital markets may currently not be able
to cater for their large corporates, pushing them away
to international markets. CMU could bring them back
home and expand their markets.

The benefits of CMU will be different for the different
types of companies.

Start-ups will get special attention, as their
innovation and entrepreneurial spirit are key to
Europe’s growth potential. At this moment start-
ups can turn to crowdfunding, but this is only
developing and there is already some investment by
business angels. However, these funding channels
remain small and local and will not always provide
the necessary funding at critical moments in their
expansion. The initiatives to step up venture capital
for example may be particular beneficial in that
respect.

Small companies that are struggling to get bank
funding, especially in those countries that have
been hit the hardest by the crisis, may unlock
more funding via securitization. SMEs in particular
could be positively impacted, as the intended side
effect would be that securitisation allows banks
to step up the lending capacity, knowing that bank
lending for this type of corporates may remain a
very important source of funding. Next to that,
the European Commission also wants to work
closely together with the SME growth markets, a
new market sub-category created under MiFID II
to facilitate access to capital for SMEs, to ensure
that the regulatory environment for these markets
delivers the expected results.

Medium and large-sized companies, which may
already have access to capital markets, should
also feel the effects as CMU will support investors
who wish to place larger amounts of capital in
the market. The initiative to promote private
placements, building on successful experiences
such as the one in Germany and through supporting
market-led initiatives such as the one by ICMA on
the use of standardized documentation could be
quite helpful. Tackling tax issues could come in
helpful as well. What is important too is that the
European Commission is also planning to review the
functioning of the European corporate bond market
and to see how market liquidity can be improved.
A well-functioning secondary market will be crucial
for the success of the primary debt markets.

So all in all, the Capital Markets Union is an
ambitious, yet challenging plan of the European
Commission. Ambitious because it intends to re-
engineer Europe’s traditional funding channels.
Challenging because of the wide range of issues
that need to be tackled to get there and the tight
deadline. The outcome should be that corporates
meet with investors in an efficient market place,
thus broadening the scope of options for both parties
to contribute to economic growth.

“So all in all, the Capital Markets
Union is an ambitious, yet
challenging plan of the European
Commission.”
GREEN LIGHT FOR GREEN BONDS

The last 2 years have marked a breakthrough year for corporate issuers of Green Bonds, who now represent close to 40% of the Green Bond market. Head of Sustainable Capital Markets, Stephanie Sfakianos discusses the dawn of a new age in responsible issuing and delivers a brief guide on how to issue a Green Bond.
Launched in 2007 by the European Investment Bank and the World Bank, the first Green Bonds were issued in response to growing investor demand for assets which would meet their standard financial objectives while tackling the challenges of climate change and environmental issues. With the same financing features and pricing as traditional bonds, Green Bonds brought a new dimension to the mix, with bond proceeds being explicitly allocated to environmental projects, such as energy efficiency, promotion of the circular economy and sustainable agriculture.

Since then the market has expanded as sustainability rises steadily up the social and regulatory agenda. A major turning point came in 2013 when corporates began to see the unique benefits of issuing these instruments, bringing the market to over USD 11 billion by the end of that year, a 3-fold increase compared to 2012.

The last 2 years have marked a further breakthrough for corporate issuers. A host of new issuer types have entered the market, and growth in green issuances in Asia Pacific has broadened the geographic footprint of Green Bonds, specifically in China and India. With over USD 90 billion worth of Green Bonds issued to date, it’s clear that the popularity of this impactful tool is only increasing.

Green Bonds also attract a diversified investor base, being a welcome tool for the growing body of socially responsible investors. This demand is underpinned by the proliferation of regulatory measures around the world promoting sustainable behaviour, not least by requiring disclosure of investors’ environmental, social and governance (ESG) policies. France for example, as part of a new Energy Transition Law, has introduced mandatory carbon reporting for institutional investors. Additionally initiatives such the United Nations-sponsored Principles for Responsible Investment (PRI) and a host of industry groups specifically promoting decarbonisation, are all exerting pressure on investors to support environmental initiatives. This also includes the PRI Montreal Carbon Pledge initiative, in which 120 Institutional investors have committed to measure and publicly disclose the carbon footprint of their portfolios.¹

The momentum of sustainable capital markets intensified in late 2015 around the Conference of Parties in Paris (COP21), where a landmark agreement was signed between 195 nations to limit the temperature increase to well below 2°C above preindustrial levels. Further to this, the agreement encourages nations to attempt to limit the temperature increase to 1.5°C above preindustrial levels. USD 100 billion of annual funding has also been pledged to developing countries from 2020 onwards for mitigation and adaptation projects.² The historic Paris agreement should provide additional acceleration for the Green Bond market, as the necessity to finance green infrastructure projects will be paramount in the coming years. This financing tool is unique in allowing issuers to align their funding tools with their sustainable business strategy.

“(...) it’s clear that the popularity of this impactful tool is only increasing”

1. UNPRI: http://montrealpledge.org/
2. UNFCCC: https://unfccc.int/resource/docs/2015/cop21/eng/l09r01.pdf
WHY ISSUE A GREEN BOND?

Some of the benefits of issuing a green bond include:

INVESTOR BASE DIVERSIFICATION
Green Bonds attract a large portion of socially responsible investors, some with dedicated Green Bonds portfolios.

ECONOMICS
Green Bonds price flat to comparable Non-Green Bonds, i.e. there is no premium for issuers. Green Bonds tend to enjoy good secondary performance vs Non-Green Bonds since they are well supported by buy-and-hold investors.

COMMUNICATION
Green Bonds provide a unique platform for issuers to respond to social and regulatory pressure to enhance sustainability, and communicate effectively to the financial community on their long-term strategy.

HOW CAN YOU ENSURE YOUR BOND IS GREEN?

At present, there is no uniform definition of what constitutes a Green Bond, however the Green Bond Principles were created in 2014 through a collaboration between the International Capital Market Association (ICMA) and 13 banks. These are a set of voluntary guidelines to which issuers of Green Bonds should adhere. The principles focus on the following four main areas:

1. **USE OF PROCEEDS**
   Eligible projects should be declared at the outset and, where possible, clear environmental benefits should be defined.

2. **PROCESS FOR EVALUATION AND SELECTION**
   The decision-making process must be outlined for selecting eligible projects.

3. **MANAGEMENT OF PROCEEDS**
   Proceeds should be segregated or otherwise tracked by the issuer. Third party verification is preferable.

4. **REPORTING**
   The issuer should report annually on the use of proceeds, and quantitative performance indicators are recommended.

Most issuers who opt to label their bonds as Green choose to engage a third party verifier or second opinion provider to give additional assurance to investors.

Sustainability has become everyone’s responsibility. It is true in all sectors and particularly in the Oil & Gas industry. FOCUS interviews Bente Hovland and Hilde Røed, both working in the Sustainability Unit at Statoil.
1. **AS AN OIL & GAS COMPANY, WHAT IS YOUR APPROACH TO SUSTAINABILITY?**

Fundamental changes are happening in the oil and gas industry. We face new challenges, such as pressure on margins, changing patterns of energy supply and consumption, geopolitical instability and rising climate change concerns. In this changing context, we are pursuing a strategy to deliver a long-term vision: being one of the leaders in our industry that is shaping the future of energy.

As a large producer of oil and gas, and therefore a significant emitter of greenhouse gases, we can and must contribute to providing more energy with lower emissions. Statoil has been involved in Sustainability for many decades. Last year, the Group identified two main pillars to focus on: to create lasting local value for communities and to be recognized as the most carbon efficient oil and gas producer.

To that aim, we conduct active engagement and dialogue with governments, local authorities and communities. We believe that creating value can only be achieved through working closely with our stakeholders and understanding their concerns and expectations. In a complex ecosystem, multiple perspectives and concerted efforts from many sectors are needed to move forward.

Every year we publish a sustainability report which highlights our environmental and social performance. If we do not have all the answers towards a green shift, we know that transparency, external trust and visibility are essential to support our efforts. Knowing the key points and success factors is important to adapt and deliver more energy with less emissions.

In 2015, Statoil joined the Oil and Gas Climate Initiative, a voluntary, CEO-led grouping that aims to accelerate and guide the industry’s shift towards a low carbon world. The company engaged in this type of collaboration to enable the entire industry to share and contribute with solutions.

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2. **DID YOUR APPROACH LEAD YOU TO ADAPT YOUR INTERNAL SET-UP? HOW DID YOUR TEAMS EMBRACE THIS NEW VISION?**

Our set-up is fully in line with the Top Management’s ambitions. At Statoil, the Corporate Sustainability Unit is responsible for the implementation of our sustainability strategy. It was established about 3 years ago. This unit reports directly to the head of Global Strategy and Business Development, with the support of other corporate functions and business areas. The sustainability department sits at the heart of the strategy function of the business – where the future of the company is shaped.

Safety and sustainability management is an integral part of our overall management system, which includes our policies and requirements, operating model and governance. Our objective is to transform strong ambitions into concrete actions and achieve real results. Integrating a new mindset into a business strategy takes time, but we are in a privileged situation since the Board is very much involved. The members have a good understanding of the risks associated with sustainability issues and this helps to support our mission internally. A Board Sustainability Committee meets approximately every two months to discuss future investments, ambitions and decisions.

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**ABOUT STATOIL**

Since its founding in 1972, Statoil has grown to be the leading oil and gas operator in the Norwegian continental shelf. It is today the second biggest gas supplier to Europe. In 2015, its equity production was 719 million barrels of oil equivalents and total production from Statoil-operated assets exceeded 900 million barrels of oil equivalents. The company employs about 21,600 people worldwide and is listed on the NY and Oslo stock exchanges.
We focus on our strategy and strongly leverage on our position within the organization to build people’s knowledge. The main objective is to break silos, and to define specific training plans at a corporate level. We set-up seminars and courses on a number of aspects of sustainability and we think about new initiatives to drive our internal competencies.

3 According to you, what are the main challenges for the future?

The shift to a low carbon world is probably the most challenging step for the future. Balancing the need for emission cuts and helping communities to have access to affordable sustainable energy sources are major elements to be placed on the radar too. High carbon efficiency and investments in low-carbon business opportunities will help ensure the long-term viability of our industry. Creating local value helps maintain a mutually beneficial relationship with the communities in which we operate. Together with safe and secure operations, this is a prerequisite for sound business performance. We want to build a new energy business focusing on opportunities arising from the transition to a low carbon world.

The industry is transforming fast. All stakeholders have to work together to find new solutions. We work closely with our suppliers to explore new technologies, for example, in 2014 we entered into long term charter contracts for 14 “eco-design” vessels to be delivered in the next few year.

Collaboration is essential to grasp new opportunities. Our approach to business and growth within renewables and new energy solutions includes both commercial investments and research & development. Our offshore floating wind technology, Hywind, for example, can be developed in places where conventional bottom fixed turbine structures are not feasible. Statoil has been testing such an offshore wind technology over the past six years through the single Hywind Demo turbine installed off the Norwegian west coast; a new project, the Hywind Scotland Offshore Wind Pilot Park, is currently being built and is expected to supply 20 000 Scottish households with renewable power.

“We want to build a new energy business focusing on opportunities arising from the transition to a low carbon world.”

Every year, Statoil publishes a sustainability report reflecting the Group’s vision and ambitions. Read more on www.statoil.com
SUSTAINABILITY IN TRADE FINANCE AND SUPPLY CHAIN THROUGH IMPROVED CORPORATE EXPERIENCE

Long-term relationships and optimized processes are paving the way for sustainable business. **Eric Henry** outlines the importance of user experience in renewed business models.
At the end of the 90s, as a pioneer, Bill Gates already predicted what the future of business would be, with changes in the nature of business itself, the way it is performed and also with the importance of speed as the driver of these changes.

An effective Supply Chain model is built on the 3Ts concept: Time, Transparency and Trust. Understanding the time dimension of supply chain is key to reach a clear and trustworthy environment. In the end, awareness and confidence might appear as the main indicators of sustainability.

**USER EXPERIENCE**

In the 90s, ERP emerged as a way to unify systems within an enterprise, replacing multiple legacy systems. More recently, the emergence of platforms that link the different stakeholders’ networks led to new portals which allow more coordination and communication, providing a single view among all the parties involved - buyer, seller, freight forwarder, carrier.

Today, the implementation of those new systems contributes to enhance productivity and efficiency; corporates also benefit from cost reduction across the entire supply chain. Indeed, more visibility coupled with accurate traceability on physical supply chain is synonymous with better anticipation and adaptability.

As corporate clients become always more integrated, they experience fast and reliable processes. They naturally look for the same fluidity in the interaction they have with their different counterparties. They expect exchanges to take place electronically, in real-time, and as smoothly as possible.

**THE DIGITAL ANSWER**

In response to their clients needs, banks already made some structural changes in the way they operate. Two main changes have been achieved over the last decade. IT development is one of them. Banks have made similar changes just like their corporate clients by integrating IT systems in order to streamline their internal processes. They have also developed e-banking solutions to facilitate communication. Reporting is available online, which increases visibility on transactions from a Corporate perspective. Finally, banks are now able to communicate with their Corporates through multiple channels: mobile, web-based solutions but also via Host-to-host connectivity (Interface) and more recently via Swift network which was made accessible to Corporate clients as well. Paperless exchange of information and data also helps to reduce the environmental impact of business activities.

In parallel, in order to remain competitive, innovative and to adapt to new market constraints, new services such as SEPA and settlements in exotic currencies have been developed to meet client and market expectations. In the Trade Finance business for instance, banks have implemented a new product which should address current needs for Trade transactions in a timely manner, electronically and including added-value services: the Bank Payment Obligation.

“(...) visibility coupled with accurate traceability (...) is synonymous with better anticipation and adaptability.”
THE BPO
A Bank Payment Obligation, so called BPO, is an irrevocable undertaking given by an Obligor Bank (the Buyer’s Bank) to a Recipient Bank (the Seller’s Bank) to pay a specified amount under the condition of a successful electronic matching of data or acceptance of mismatches.

Two years ago, ICC endorsed uniform rules on BPO, giving this way, a stable legal framework to this Trade Finance instrument. BPO is a technology-independent instrument that can be used on any open trade matching application. It is a bank-to-bank communication-based application through which a purchase order and the related commercial data set including commercial invoice, transport documents, insurance certificate and certificate of origin can be automatically exchanged and matched against the purchase order.

This process results in a fully electronic alternative to the letter of credit, which delivers immediate efficiency gains, working capital reduction and cost savings for the corporates. Digital documents increase speed and accuracy throughout the process; all the parties benefit from this new framework model.

It is meant to accommodate existing flows of business. By nature, it is a payment instrument securing Trade Finance activity, with its own characteristics. BPO is established to complement existing Trade Finance range of products and not to replace existing ones. It reinforces the relationship between buyer and seller, hence the trust between the commercial parties, and reflects the sustainable nature of the model.

THE OPPORTUNITIES OF A NEW ECOSYSTEM
As physical and financial supply chains become more tightly connected, new opportunities emerge for all the parties involved in the transactions. When banks have a reliable and comprehensive visibility of the supplier’s past performance and in events occurring in the physical supply chain, they have the ability to offer a much broader range of services and to provide earlier and ad hoc financing, creating liquidity in the supply chain. Then benefit is immediate to the seller: it improves its cash flow. And these savings can be shared with the other parties across the supply chain mainly to the buyer.

These benefits can only be fully realised when there is a deep integration between the financial and the physical supply chain enabled by integrated IT solutions between the Corporates and the banks.

The development of packaged supply chain financing products is of growing importance for all stakeholders. The combination of IT systems with the growing digitization of payments and Trade services will ensure a sustainable era of digital commerce and finance. The convergence of new technologies including Blockchain technology, the global distributed ledger which facilitates the movement of assets, industries and parties into a unified and automated environment will drive the future of sustainable business.

In April 2014, BNP Paribas Fortis Belgium performed the first multibank BPO live transaction under URBPO in Europe. It was the first bank in Europe and the 9th bank worldwide to achieve live BPO transactions. This BPO deal with BP Aromatics was awarded «Best Deal of the year 2014» by Trade Finance Review Magazine in January 2015.
The economic weather conditions are feeling chillier as of late. In the US, sentiment in the manufacturing sector has been on a downtrend for months and more recently sentiment in the non-manufacturing sector also declined. In the Eurozone and the UK, the purchasing manager indices for manufacturing are also down. In China the downtrend continues and several other developing economies are struggling. The economic repercussions of the combination of a demand shock (slower growth in China), a supply shock (oil and commodities in general) and a monetary shock (the prospect of US monetary policy normalization which had caused an appreciation of the dollar), are more visible now than say six months ago. Unsurprisingly, international organisations adopt a more cautious tone. The OECD has revised its growth forecasts for a broad range of countries downwards under the telling title “Stronger growth remains elusive: urgent policy response is needed”. The IMF, on the occasion of the G20 meeting of central banks and finance ministers in Shanghai at the end of February, has struck similar chords. Yet, there is a risk of too dark a reading of the environment. The US manufacturing ISM index was up in February, durable goods orders have rebounded strongly, inventories are low and... this is after all a full employment economy. In the Eurozone we’re still benefitting from the combination of cheap oil, a competitive euro, low rates and a
slightly expansionary fiscal policy. China, despite its slowdown, is still growing at a strong pace.

Policy makers, businessmen and investors alike need to find the right positioning between the extremes of bearishness about the outlook and complacency, a task which is made more complex by the reduced visibility (witness the Federal Reserve which has made its policy data-dependent), recent market turmoil and increased concerns about geopolitical risk. Although Janet Yellen keeps her options open, judging by fixed income markets, the likelihood of rate hikes this year has come off very significantly. In our view, there will be no hikes this year or next: the US will see slower growth than anticipated previously and this will make it very difficult for the FOMC to tighten. For the Fed, this raises an issue in the medium run (absence of leeway to ease when the next recession hits) but for the ECB it raises an issue today. The prospect of increased policy divergence with the US was expected to strengthen the dollar versus the euro and contribute to the effectiveness of the ECB’s QE programme. In the new environment, a sideways EUR/USD evolution is more likely so Mario Draghi and his colleagues have to count on other transmission channels to boost inflation. The need becomes ever more pressing: the commitment to act forcefully to boost inflation expectations and inflation has been made repeatedly, markets have priced in more action and the necessity is becoming clearer by the day considering that core inflation has eased to 0.7% and headline is at -0.2%. The Bank of Japan is also dissatisfied about the inflation dynamics, which is why it introduced negative rates. This sent shockwaves through markets: what would be the impact on banks (the sophisticated tiering system should limit the impact)? How will other countries react? The list of countries with negative deposit rates on excess reserves at the central bank is getting longer and even the Federal Reserve is exploring the implications if this were to be introduced in the US at some point. In the meantime the government bond yield curves has shifted down and yields have turned negative in more markets and for longer maturities. It signals quite justifiably that monetary policy in major countries will stay very expansionary for a long time (even if the Fed were to hike after all, this would not fundamentally change the policy stance) but it also means that subsequent policy normalisation (raising rates) will become even trickier. Low(er) for longer today means more volatility tomorrow. 3rd March 2016

“In the Eurozone we’re still benefitting from the combination of cheap oil, a competitive euro, low rates and a slightly expansionary fiscal policy.”
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**EUROFINANCE AMERICAS**
**USA, MIAMI** 11/13 MAY
Strategic International Treasury seminar covering several topics ranging from corporate case studies, payments and commodity risk to Latin slow down, China and Bank relationships.

- eurofinance.com/miami

**GTR EUROPE TRADE & EXPORT FINANCE CONFERENCE 2016**
**GERMANY, HAMBURG** 12 MAY
Organized by Global Trade Review, the event will gather international business, banking, legal, insurance and government representatives to talk about Trade priorities and future challenges.

- gtreview.com/events

**CPI IN PARTNERSHIP WITH EUROFINANCE**
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Asia-Pacific Commercial Cards & Payments Summit is a unique and focused event involving over 130 senior professionals from across the region.

- commercialpaymentsinternational.com/conferences

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- treasurers.org/annualconference

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