



REPO GOES GREEN

Carsten Hiller of Eurex Repo launches first Green Bond GC Basket



Repo goes green

Drew Nicol reports : Carsten Hiller explains why Eurex Repo has launched a new Green Bond GC Basket and outlines what it is needed to bringing repo market into the modern ESG sphere

Where is the demand for the Green Bond GC Basket coming from?

It's coming from sell- and buy-side clients. On the sell side, we have bank treasury desks that have an environmental, social and governance (ESG) focus as well as the big issuers of green bonds. Meanwhile, the buy side is already the driver of ESG products within the financial industry. The new green bond general collateral (GC) Basket perfectly fits into our overall buy-side strategy as it offers clients the opportunity to manage their short-term cash, i.e. money market positions, in an ESG and green bond-compliant way.

How was the basket constructed?

We decided to start with one basket for green bonds which includes government as well as non-government bonds.

As a first globally standardised ESG repo product, the Green Bond GC Basket encompasses euro-denominated debt securities that are issued

in adherence with guidelines for green bonds. These include sustainable bonds of renewable energies, sustainable waste management, preservation of biodiversity or sustainable land utilisation classified as green bond by the data provider WM Datenservice.

We will build upon this and launch new baskets in the future, incorporating further ESG factors, if demand requires.

ESG is one of the main trends of 2020, do you foresee the demand for ESG-friendly collateral growing further?

The issuance of green bonds and other ESG-bonds is constantly increasing. In October there was a record volume of €77 billion issued in green and sustainable bonds. This is almost the same amount as for the full year in 2016 with a total of €81 billion. Moreover, on the 4 November, the German Finance Agency issued its second green bond, thereby further adding to the pool of available ESG instruments in the EU.

The EU has the ambition to become the world's largest issuer of green bonds. Last month the EU took another step forward in this aim by issuing €17 billion Sure bonds, with a social component, while €225 billion of the Next Generation EU scheme's €750 billion is set to fund green bonds.

As KfW's head of funding Otto Weyhausen-Brinkmann wrote on LinkedIn: "... in terms of ESG, this is a major step forward for the securities financing industry and will form an important part of the overall ESG value chain".

Claus Breternitz, a director on the repo desk at Commerzbank AG, also mentioned: "... this first Green Bond GC Basket shows the repo market is reacting to the increasing number of Green Bond issuances and the growing importance of the ESG segment."

With increasing investor demand, we expect differences in GC trading levels.

As a next step, asset managers and real money accounts which have already adjusted their investment policies in order to be ESG-compliant should consider the Green Bond GC Basket as a new segment to manage their money market activities.

We often hear about ESG in the context of securities lending and short selling, but how much has it penetrated repo markets?

ESG is still a niche and emerging segment in the repo market. With the Green GC Bond Basket, we launched the first standardised repo product and the eligible bonds have been traded already in the Special Repo segment on Eurex Repo.

Where will Eurex Repo go from here in supporting the growth of ESG in repo markets and beyond?

The new GC Green Bond Basket complements our buy-side initiative as a standardised and secured product for funding and financing activities.

We are planning further market consultations in order to customise additional ESG collateral baskets to our clients' needs, with the aim of offering a set of baskets which cover the full ESG spectrum. That means not only Green Bonds but the social and governance factors as well. The challenging part of covering the full range of ESG criteria is the quality of data and the availability of data.



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*Carsten Hiller
Head of sales for Central Europe – fixed income derivatives,
funding and financing
Eurex Repo*



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