ICMA
International Capital Market Association

ICMA Repo & Sustainability Survey: Summary report

August 2024

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Executive Summary

This report summarises the findings of the 2024 Repo & Sustainability Survey conducted by ICMA. Building on the observations and categorisations from ICMA's 2022 paper on sustainability in the repo market, the survey aimed to deepen the understanding of existing market practices and identify issues for further reflection and future guidance. The key points that come out of the survey are:

- a clear call for further dedicated guidance to cover all types of sustainability-related repo
- a confirmation that the overwhelming majority of respondents active in this market specifically focus on repo transactions involving sustainable collateral, and this category of sustainability-related repo remains their top priority
- a general agreement that Use of Proceeds (UoP) and Sustainability-Linked (SL) repo should be transacted under firms' overarching sustainability frameworks or strategies
- a strong view that SL repos are more appropriate for maturities exceeding 12 months
- a call for regulatory and central bank incentives to support the development of repo with sustainable collateral
- the observation that ESG ratings are emerging as a preferred tool for repo with sustainable counterparties
- a majority view, in line with practices in the sustainable bond market, that a breach of green or sustainable undertaking does not warrant treatment as an event of default
- a consensus that to avoid double-counting from an accounting perspective, the repo seller should retain the green claim in line with the retention of economic exposure to the assets

While reflecting the views of a limited number of respondents, this report encourages ongoing discussion and welcomes further feedback and engagement from all relevant stakeholders.

Introduction

Following the paper published in October 2022 on observations and categorisations relating to sustainability in the repo market, ICMA remains committed to the topic. With the support of its Taskforce members, on 12 February 2024, ICMA launched its 2024 survey on Repo & Sustainability to further explore the challenges faced by firms in the space and identify potential solutions and best practices.

The purpose of this survey is to gain a better understanding of the current market practices by delving deeper into some of the open questions that arose from the previous report. The survey closed on Friday 8 March 2024, following a two-week extension. In total, 20 responses were received. The majority of respondents are sell-side firms (70%), with the rest comprising market infrastructures, rating agencies and public sector issuers[1].

The objective of this summary report is to assess the feedback in response to the survey, highlighting the key themes raised by the respondents for each of the questions. The comments summarised in this report do not represent ICMA views, rather they are intended to outline the responses from the market. Where helpful we included quotes from individual responses to complement and elaborate on specific points.

This summary report only considers responses received during the consultation period and therefore reflects the views of a limited number of respondents. However, the discussion on the topic is ongoing and further feedback is welcome.

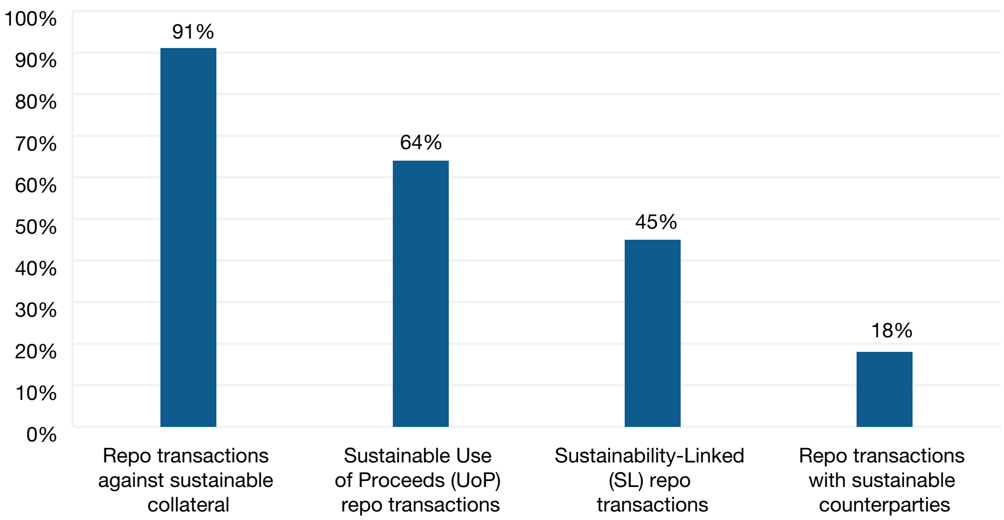
1 The full list of respondents is included at the end of the report.

Survey Results

1. Sustainability arrangements and challenges

Based on the ICMA categorisation, 11 respondents indicated their current engagement in one or more of these transaction types[2]. Among them, over 90% specifically focus on repo transactions involving sustainable collateral possessing credentials that meet recognised market standards or regulatory requirements (i.e., ICMA Principles, EU Green Bond Standard), with a few also handling collateral screened, based on ESG criteria at the same time.

Which of the main categories listed below do you engage in or trade?[3]



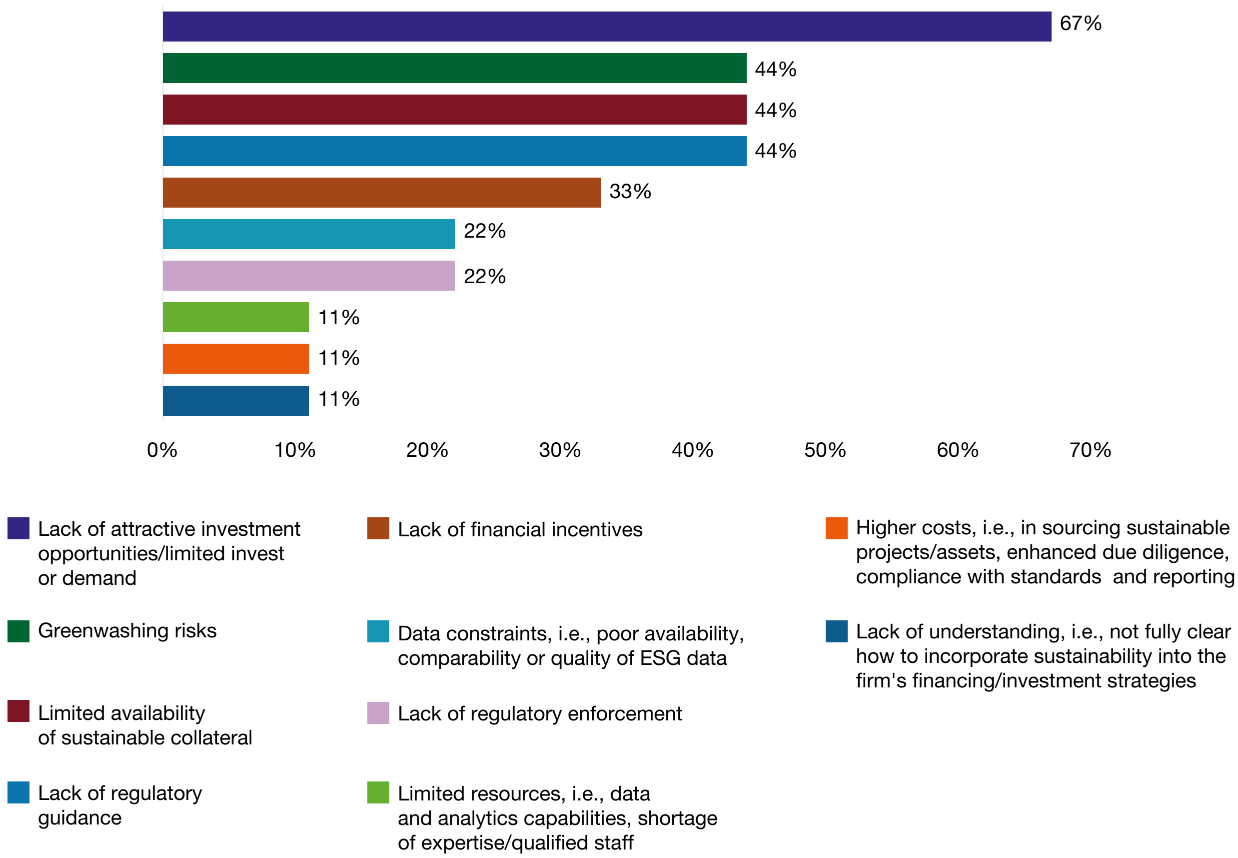
The primary drivers for engaging in sustainability-related repo transactions include a commitment to sustainability as part of the organisation's broader strategy, responding to investor demand and offering clients additional financing options to support their sustainability objectives. Portfolio diversification and financial incentives are less significant motivators. One respondent also noted that trading repos against sustainable collateral and sustainable counterparties is part of the firm's normal day-to-day repo business, and they do not perceive it as unique or recognise any specific sustainability benefit.

For those currently not engaging (9 respondents), 75% expressed that they would consider implementing sustainability criteria in their repo business in the next 6 to 24 months. Lack of attractive investment opportunities and limited investor demand are highlighted as the main obstacles, followed by concerns about greenwashing risks, insufficient regulatory guidance and limited availability of sustainable collateral. Besides, respondents also pointed out a lack of trading counterparties for sustainability-related repos as well as the limited triparty baskets offered at CCPs (to be discussed further in Section 4).

2 According to Question 1(a), all the respondents agreed with the categorisation proposed by ICMA on the four types of intersections between repo and sustainability: **1. Repo against sustainable collateral; 2. Repo with sustainable counterparties; 3. Sustainable Use of Proceeds (UoP) repo; 4. Sustainability-Linked (SL) repo.**

3 Note that the percentages displayed in the graph do not sum up to 100% as this question allows respondents to select multiple choices.

What are the main reasons/obstacles?[4]



When considering future work and development, 80% of the respondents identified repo against sustainable collateral as the top priority, emphasising the need for clear guidelines for repo transactions against sustainable collateral due to the subjectivity and varied market practices in this area.

On the other hand, there was also interest in developing the specific products (UoP repo and SL repo) as the structures of these repos differ from conventional format. Respondents suggested leveraging existing guidance such as ICMA's Green, Social, Sustainability and Sustainability-Linked Bond Principles[5] (hereinafter referred to as the "The Principles") to avoid any inconsistency. There is also a call for a standardised approach to the documentation process as well as a reporting template to evidence sustainable use of proceeds.

Key message:

The overwhelming majority of respondents engaged in the market specifically focus on repo transactions involving sustainable collateral, and indicate that this category of sustainability-related repo remains their top priority, emphasising the need for clear guidelines in this area.

4 Note that the percentages displayed in the graph do not sum up to 100% as this question allows respondents to select multiple choices.
5 https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/

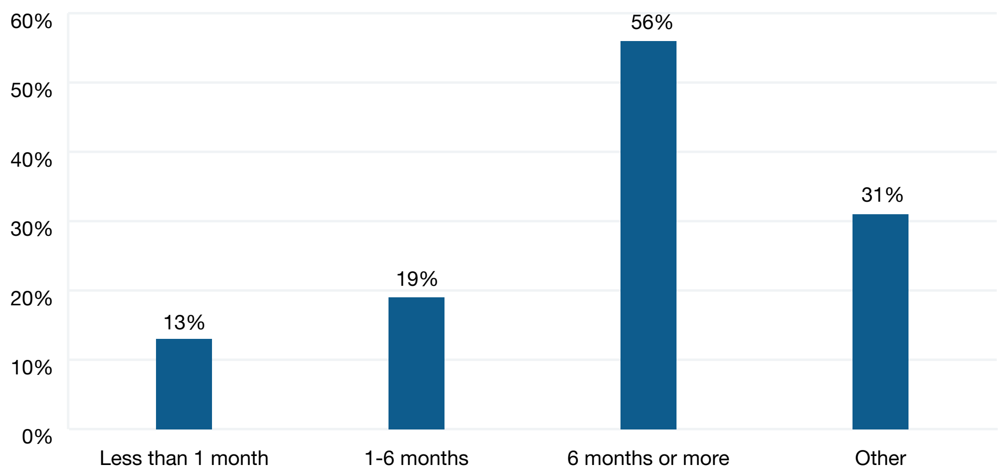
2. Sustainable Use of Proceeds (UoP) Repo

Of the 16 respondents who answered this section, over 80% believed that clear conditions should be applied to the underlying collateral for UoP repos. Some supported the exclusion of 'brown assets', while others thought the criteria should be determined by institutions' internal policies and a standard baseline ESG criteria could be deemed sufficient. This standard could be based on a "Do No Significant Harm" principle such as exists in several official sector taxonomies, or eligible project categories as adopted in the Principles.

The responses regarding appropriate tenors for UoP repos indicate a strong preference towards longer-term tenors. This is likely to arise from a desire to align short-term financing with long-term sustainability objectives, especially if the transactions are not rolled or are part of a broader sustainability framework. On the other hand, a few respondents suggested the tenor depends on the circumstances and no particular constraints should be applied.

- *"If there are projects at hand where proceeds are ready to be allocated, short-term UoP repos can work as well, but generally longer-term instruments fit better to the sustainable finance market in our view."*
- *"We do not apply any fixed rule, in some instances we see UoP repo utilised as a warehouse/bridge financing ahead of an eventual green bond issuance."*

What do you think are appropriate tenors for UoP repos?[6]



A clear majority believed that it is challenging to track the cash margin operationally, particularly for small amounts. This difficulty can lead to inaccuracies in the labelling of financial transactions, potentially affecting the ESG classification and reporting. It is also not a common practice across other sustainable finance products.

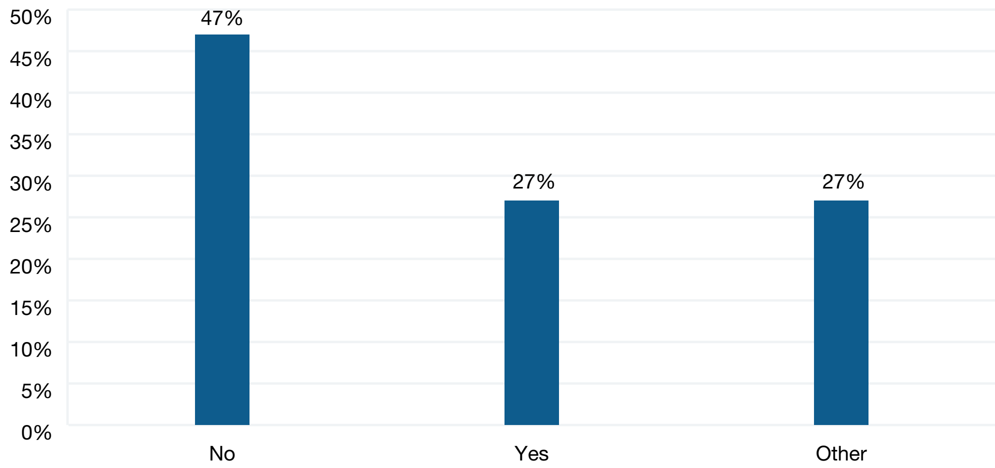
When considering documentation, the vast majority thought that the use of proceeds conditions should be referenced in the repo documentation. One respondent suggested that, instead of duplicating the content of the seller's sustainable financing framework in the repo documentation, a direct reference to the framework could be made. This approach would streamline the documentation process and ensure that all relevant sustainability criteria are consistently applied. The aspects of the use of proceeds to be included should align with the seller's sustainable financing framework or market standards such as the Principles, encompassing eligible projects and activities, management of proceeds, and reporting requirements. A few suggested alternatives, such as mentioning the conditions in trade tickets or term sheets.

On reporting practices, nearly half of the respondents believed that UoP repos do not require more frequent reporting than annually despite its relatively short-term nature, while some felt it should be reported more frequently if the tenor is less than 1 year. A practical suggestion was that UoP repos should be reported as part of firm's sustainable financing report

6 Note that the percentages displayed in the graph do not sum up to 100% as this question allows respondents to select multiple choices.

for any relevant year, i.e., on a portfolio level together with other sustainable UoP liabilities, which is typically committed under a sustainable financing framework.

Do you believe that Sustainable UoP repos require more frequent reporting than annually?



However, when it comes to sustainable financing framework, most of the respondents opined that UoP repos could be transacted independently outside an overarching framework despite the challenges of using short-term repos for long-term sustainable financing:

- *"UoP repos can be used to finance opex/capex that are ready to be financed and can still have long-term impacts, regardless of the instruments' tenor…"*
- *"As long as the client can confirm the allocation of proceeds within the tenor of the repo transactions, we would be comfortable with that approach."*

On the other hand, a few noted the opposite:

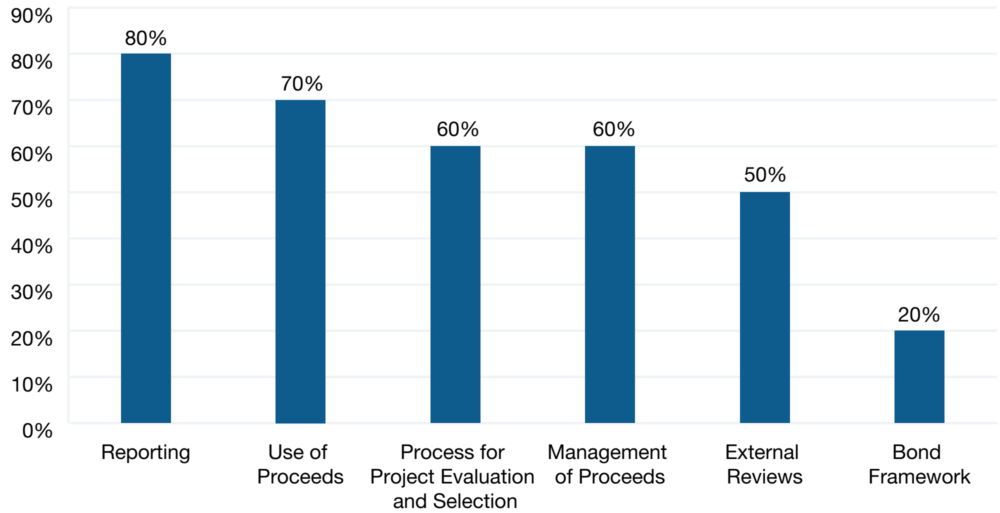
- *"…utilising short-term repo for this purpose is fraught with difficulty - errors would become too common and the administrative burden would make the process costly."*
- *"[It should be transacted under a framework] to avoid creating additional confusion and reporting requirements."*
- *"UoP repo should be aligned to the same standards as other sustainable financing transactions."*

Lastly in terms of future guidance, over half of the respondents supported that UoP repos require a separate set of guidance:

- *"…as the market is very nascent and limited to a number of trades arranged by a small number of sophisticated international banks, we believe there are more wide-ranging matters that have greater relevance to the "normal" day to day business of the repo market such as sustainable collateral management."*

However, some expressed existing Principles could be relied on with flexibility, with reporting as the most relevant component.

Which of the core components/key recommendations from the Principles could be adapted? (10 responses)[7]



Key message:

The results indicate that respondents see several benefits (e.g. integrating within longer-term sustainable projects and objectives, reporting, and documentation) in issuing UoP repos under an overarching firm-level sustainability framework. There is however also a desire to retain flexibility in this respect.

There is also a call for further dedicated guidance for UoP Repos. This is an opportunity, among others, to address the role of overarching sustainability frameworks or strategies consistent with ICMA's wider guidance for both short- and long-term debt market products.

7 Note that the percentages displayed in the graph do not sum up to 100% as this question allows respondents to select multiple choices.

3. Sustainability-Linked (SL) Repo

Due to the limited number of SL repo transactions that have been traded and communicated externally[8], it is difficult to observe a clear trend for the most common KPIs, although there is an indicative growing focus on climate change-related targets such as greenhouse gas emissions reduction. Respondents noted that KPIs should be largely aligned with those adopted for other sustainability-linked assets as SL repo are often traded under a firm's overarching sustainability-linked framework. Therefore, maintaining consistency in KPIs across all instruments can serve as a common benchmark for sustainability performance. One respondent pointed out that in some circumstances, having different KPIs for different instruments may be acceptable. However, it is crucial to ensure that these KPIs are credible, ambitious and aligned with the firm's overall sustainability strategy.

Similar to UoP repos, 80% of the respondents pointed out that some conditions should be applied to the underlying collateral based on institutions' internal policies or standard baseline ESG criteria. One respondent highlighted the potential risk of not excluding 'brown' assets:

- *"Not having exclusions on brown assets for collateral would allow repo sellers that have such assets on the balance sheet to use them in sustainable repos transactions and open up the option that dedicated ESG investors might end up with brown assets in the case of default."*

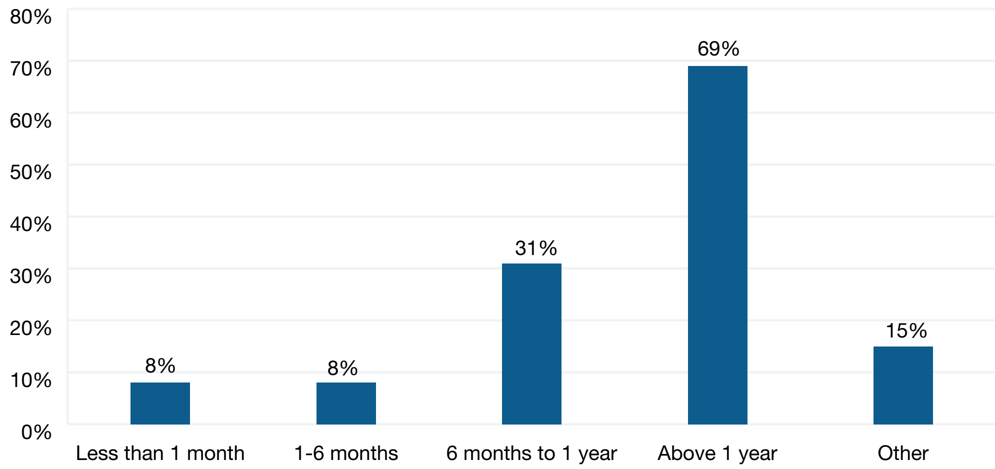
Compared to UoP repos, the appropriate tenors in SL repos selected by respondents indicated a notable preference for longer durations. Around 70% of respondents find tenors above 1 year to be more appropriate. This preference likely reflects the general-purpose nature of SL repos, which do not require proceeds to be specifically allocated towards sustainability projects. Instead, they create an incentive for the seller to work towards firm's broader long-term objectives over time.

- *"Shorter than 1 year leads to difficulties with not only allowing the repo seller enough time to achieve KPI targets, but also time in which they have to assess and report on the KPIs."*
- *"…the KPI should be meaningful, measurable and compatible with the tenor of the repo."*
- *"We [see] potential to SL repos, [provided] the tenor is 1 year or above and the longer-term SPTs can be linearly [adjusted to match] the repo's tenor. Shorter-term repos may lose credibility as the longer-term target will not be meaningful."*

Nevertheless, the role of the sustainable financing framework has been highlighted again. Incorporating SL repos into an overarching sustainable financing framework alongside other short- and long-term liabilities helps to mitigate the conflict between short-term financing needs and long-term sustainability objectives, as SL repos are considered within a comprehensive strategy.

8 13 respondents answered this section, however, the number of responses varies per question.

What do you think are appropriate tenors for SL repos?[9]



When taking a closer look at the sustainable financing framework structure, the majority also believed that SL repos could be transacted on a standalone basis. However, most respondents agreed that they are typically traded within a broader framework, together with other instruments, and rely on the same KPIs and Sustainability Performance Targets (SPTs):

- *"The linked repos are usually part of a larger issuance with other instruments; however, further consideration is needed to figure out how to assess the timeline and trigger event of the SPTs to secure credibility in a shorter-term instrument.*
- *"Could be, yes. But should aim to be incorporated [in the framework] for ease and transparency."*

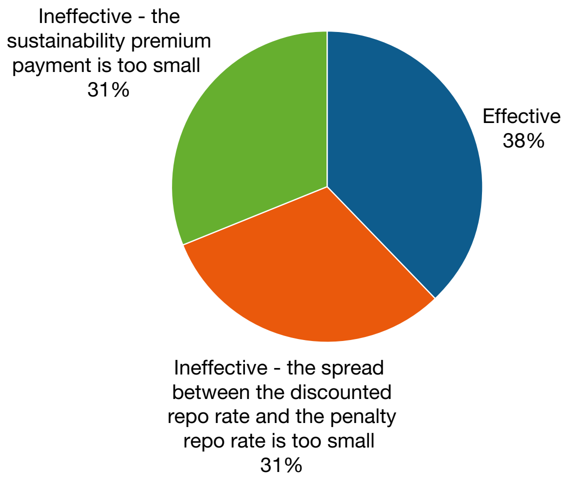
A key feature of the SL repos is the penalty mechanisms if the borrower fails to meet the predefined SPTs or KPIs. Currently, pricing rate adjustments as well as sustainability premium payments are the two common forms. However, over 60% of respondents considered the mechanisms ineffective, pointing to the need for proportional calibration and alignment with established principles and broader sustainability strategies:

- *"If the size of the penalty is commensurate to what has been included in SL bond transactions (adjusted for tenor), then the effectiveness would likely be of a similar nature."*[10]
- *"What matters most is to accompany the client in defining relevant sustainability KPIs in line with their CSR/ESG strategy and respective ambitious targets."*

It is worth noting that the effectiveness of penalties within the sustainability-linked structure extends beyond the repo market and has been a topic of discussion in the primary market for sustainability-linked bonds as well.

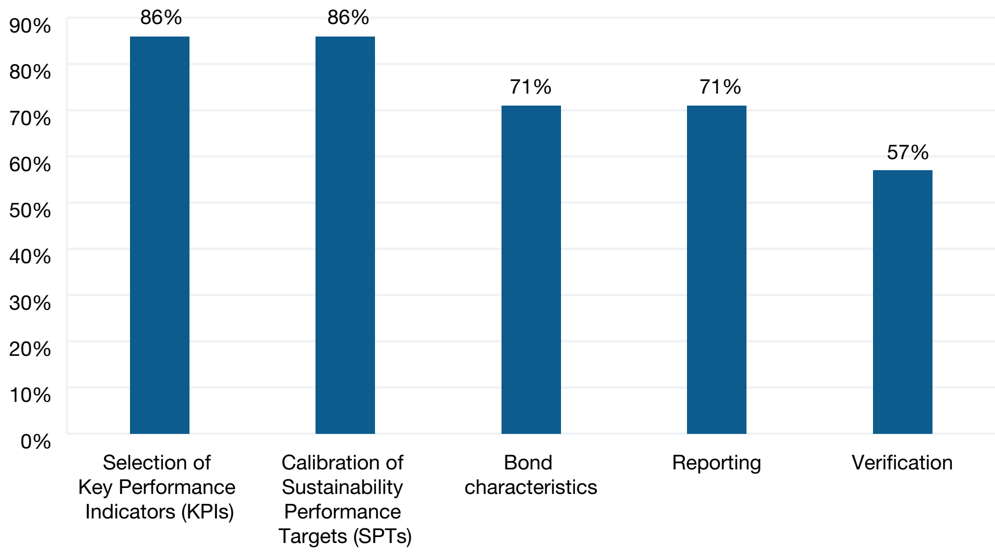
9 Note that the percentages displayed in the graph do not sum up to 100% as this question allows respondents to select multiple choices.
10 However, the respondent added that they currently do not have an opinion on the effectiveness of variations in SL bond markets.

How effective are penalty mechanisms in making SL repo transactions credible?



Finally, regarding additional guidance for trading SL repos, similar to UoP repos, half of the respondents believe that separate guidance is necessary. However, existing principles such as the ICMA Sustainability-Linked Bond Principles (SLBP) could be utilised. Specifically, the Selection of KPIs and Calibration of SPTs were identified as the most relevant components.

Which of the core components /key recommendations from the Principles could be adapted? (7 respondents)



Key message:

Even more than with UoP repos, the survey shows that respondents see clear benefits for issuing SL repos under an overarching sustainability framework notably to ensure consistency with organisation-level KPIs and sustainability performance targets. There is otherwise a strong view that SL repos are more appropriate for maturities exceeding 12 months.

The survey also calls for dedicated guidance for SL repos while underling the pertinence of the SLBP in the meantime.

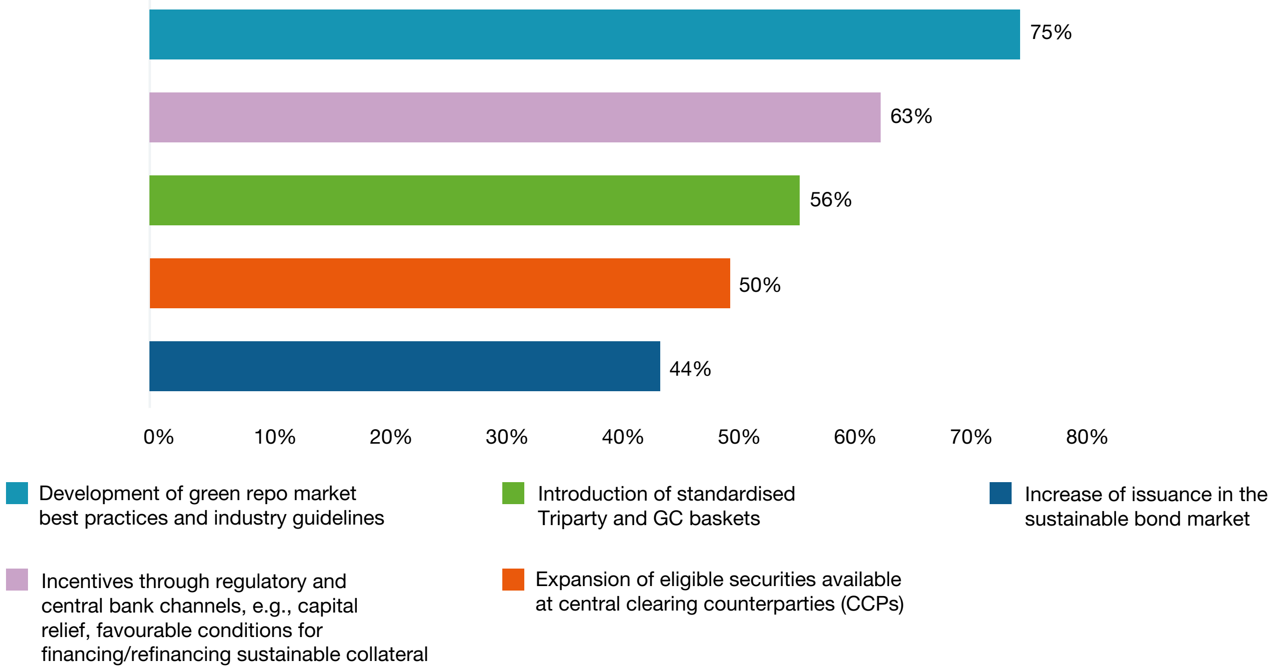
4. Repo with Sustainable Collateral

Due to the limited traded volume of sustainable collateral, we asked the respondents what steps could be taken to enhance the liquidity of transactions involving sustainable collateral. The most endorsed step was the development of sustainability-related repo market best practices and industry guidelines, followed by incentives through regulatory and central bank channels. Additionally, half of the respondents thought that introducing standardised triparty and GC baskets, as well as expanding eligible securities available at CCPs would help:

- *"Triparty Agents should provide Collateral Schedules allowing to screen the assets based on different ESG criteria (not limited to ESG Ratings or Sustainable bond flags)."*

One respondent also suggested that financial institutions could enhance the integration of their ESG and sustainable finance policies across all trading activities and teams. Furthermore, a comment highlighted the importance of broadening the scope beyond just bonds and considering other forms of sustainable collateral as part of repo trading.

What steps could be taken to enhance the liquidity of transactions involving sustainable collateral?[11]



When taking a closer look at Triparty Repos and GC Repo baskets, several factors contribute to the limited transactions and liquidity. The most significant one, cited by 93% of respondents, is insufficient demand from clients. Additionally, 43% of respondents pointed to a restricted number of eligible sustainable bonds for collateral and the fact that bonds eligible for these transactions can also be used in more liquid baskets or transactions.

Comments provided by respondents underlined the need for greater demand, standardised definitions and data, as well as a more robust market infrastructure. One respondent highlighted the lack of widely recognised and standardised data formats for identifying assets classified as green or sustainable. Two respondents noted the absence of industry standards. Further feedback included concerns about the lack of market depth and competitive pricing.

Key message:

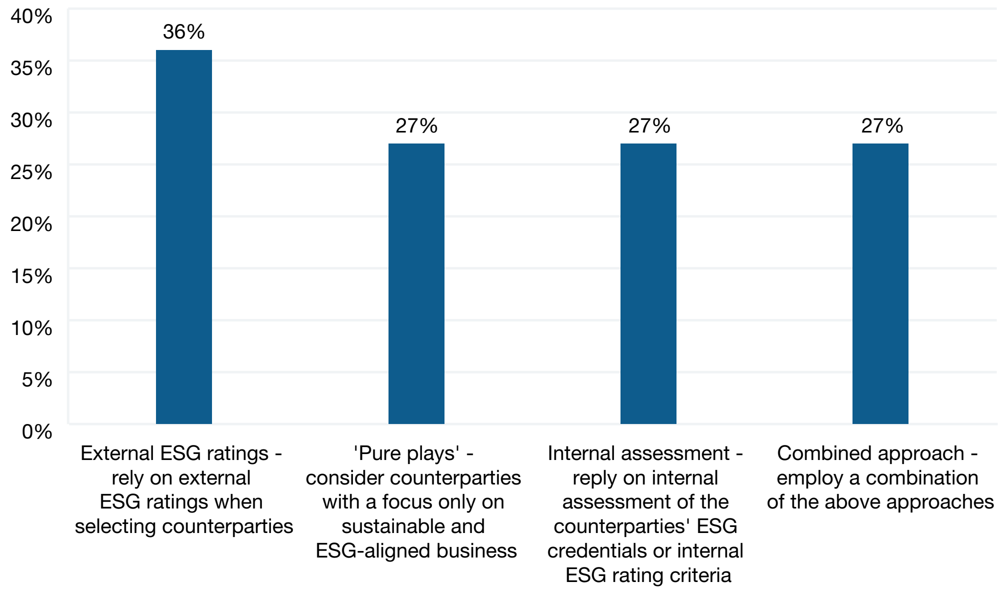
Respondents see the development of repo with sustainable collateral requiring the development of market best practices and industry guidelines. Repo with sustainable collateral is also challenged by a lack of client demand leading some respondents to call for regulatory and central bank incentives.

11 Note that the percentages displayed in the graph do not sum up to 100% as this question allows respondents to select multiple choices.

5. Repo with Sustainable Counterparties

When asked about firm's current approach regarding counterparty considerations[12], respondents selected a variety of strategies with a slight preference for external ESG ratings. However, one respondent challenged the reliance on ESG ratings to identify sustainable counterparties, emphasing that these ratings often assess how a firm manage its ESG risks but may not fully capture its wider impact on the environment or society. They suggested that ESG ratings should be complemented with impact assessment to provide a more comprehensive view of a firm's sustainability profile. Another respondent pointed out the difficulty in achieving alignment, as current market guidelines such as the Principles or SLBP do not specifically address counterparty considerations.

Which of the following best describes your current approach regarding counterparty considerations?[13]



Key message:

ESG ratings are emerging as a preferred approach for repos with sustainable counterparties, but there are concerns that these ratings often focus on the financial risks over the broader environmental or social impact. Although currently there are no agreed market standards for ESG ratings or metrics, it is important to note some recent regulatory developments underway such as the EU regulation on the transparency and integrity of ESG rating activities, as well as market-driven voluntary code of conduct for ESG ratings and Data Products Providers.

12 11 respondents completed this section.
13 Note that the percentages displayed in the graph do not sum up to 100% as this question allows respondents to select multiple choices.

6. Legal Considerations

The responses and comments on legal considerations highlighted a range of views and suggestions.

Half of the respondents believed that failing to satisfy relevant green or sustainable obligations (beyond any pricing adjustment trigger) of a given transaction should be considered as other events such as an early termination or a declassification, rather than an event of default. Respondents agreed that the transaction should no longer be qualified as ‘sustainable’. For a repo against sustainable collateral specifically, a substitution of collateral would be appropriate if the collateral is no longer considered sustainable. This process could ideally be managed under tri-party collateral management arrangements. However, one respondent noted that the GMRA already includes provisions for breaches of contract obligations that, if not remedied within the relevant cure period, trigger an Event of Default.

When asked whether an Annex or supplemental clause to the GMRA dealing with sustainability would be beneficial, 40% of the respondents supported the idea, while others felt that individual negotiation of bespoke contractual provisions was more appropriate. Additionally, a portion of respondents did not see the need for such an annex, given the current and potential volume of trades.

One respondent noted that model clauses for both UoP and SL documentation would be helpful, while still allowing for individual negotiation due to the novelty of the market and variance in KPIs. Additionally, aligning such clauses with other industry standard clauses where feasible was seen as advantageous. One respondent also mentioned that by definition, individualised term sheets take precedence over a contract and are likely to remain very bespoke, suggesting that this should be sufficient.

Key message:

In line with the sustainable bond market, the majority of respondents do not see a breach of green or sustainable undertaking as warranting treatment as an event of default. Many respondents would welcome an annex or a supplemental clause to the GMRA dealing with sustainability.

7. Considerations on accounting and green claims

Respondents commented on preventing a potential inflation of the overall green value claimed when sustainable collateral is reused, highlighting several related challenges and suggestions. Multiple responses stressed the need for additional guidelines and clarity on this topic. There was a general consensus that the green claim should remain with the repo seller, who retains economic exposure to the assets. However, a few respondents questioned whether repo buyers could claim any credit from buying the sustainable collateral, noting that this would contribute to the market liquidity of sustainable bonds.

Several respondents expressed concerns about double-counting green claims but also stated that there is currently no clear method to address this. One respondent emphasised the inevitability of double counting, acknowledging that inflation of assets, including sustainable ones, is a market-wide issue that can be exacerbated by practices like short-selling.

On the other hand, there were a few proposed potential solutions. One respondent believed that trading sustainable collateral within a sustainable financing framework would mitigate the risk, as the framework has clear guidelines and standards for transactions, thereby reducing the risk of inflating green claims or greenwashing and maintaining the integrity of the sustainable collateral throughout its lifecycle. Another proposal is to establish clear agreements on who is entitled to claim the green value, which could be integrated into the transaction terms, allowing the repo seller to either transfer or retain the green claim, with the decision reflected in the pricing. Additionally, clear distinctions in reporting between borrowing sustainable assets and holding them on the books would enhance transparency. One respondent also noted that transactions without a UoP element should not be labelled as green.

Key message:

To avoid double-counting, any green claims should remain with the repo seller, who retains economic exposure to the assets.

While repo buyers do not have economic exposure to the sustainable assets, this should not prevent them from disclosing or communicating about their sustainability-related repo transactions, which can be included in other metrics such as the annual sustainability report. Any reinvestment of repo proceeds into new sustainable assets would count as separate green claims.

Multiple respondents nonetheless stressed the need for additional guidelines and clarity on this topic.

Appendix

2024 ICMA Survey on Repo & Sustainability

Background

In 2021, ICMA released a consultation paper that examined the role of repo in green and sustainable finance, followed by a summary report which reflected the feedback received during the market consultation. In 2022, ICMA's Repo & Sustainability Taskforce published a paper which set out observations and categorisations relating to sustainability in the repo market.

ICMA is conducting this survey as a basis to: (1) better understand the repo and sustainability market and the related current market practice and, (2) explore the need for future voluntary guidance related to sustainability in the repo markets.

Scope

ICMA welcomes responses from all types of firms that engage in repo and sustainability themselves, have clients that engage on this topic, or advise clients on trading in this market, including but not limited to, banks, corporates, fund/asset managers, investment advisers, market infrastructures, law firms, or consultancy firms.

Instructions and deadline

Please complete the survey online by clicking on this link. Alternatively, if you cannot access the survey online, please send your completed survey(s) to ICMA at zhan.chen@icmagroup.org. The deadline to complete the survey is **Friday 8 March 2024**.

Results

ICMA aims to share the results of the Survey with its Members. Any feedback you provide in response to the survey will be fully anonymous and aggregated.

If you have any questions or additional comments on the survey or our broader work on this topic, please reach out to ercc@icmagroup.org.

QUESTIONS TO BE COMPLETED BY MEMBERS

Name	
Email:	
Firm name:	
If relevant, please indicate the business segment and jurisdiction on behalf of which you are responding:	

1. SUSTAINABILITY ARRANGEMENTS AND CHALLENGES

ICMA's paper on the *observations and categorisation relating to sustainability in the repo market*, identified four types of intersections between repo and sustainability:

1. **Repo against sustainable collateral**
2. **Repo with sustainable counterparties**
3. **Sustainable Use of Proceeds (UoP) repo**
4. **Sustainability-Linked (SL) repo**

a) ***Do you agree with the categorisation of the different types of intersections?***

☐ Yes

☐ No, what are examples of other types of sustainability-related repos? ______________________________

b) ***Based on ICMA's categorisation, does your firm currently engage in or trade any of the following transaction type(s)?*** (tick all that apply)

☐ **Yes**

i. *If yes, which of the four main categories listed above do you engage in or trade?*

☐ Repo transactions against sustainable collateral

- ☐ collateral with sustainability credentials which meet recognised market standards or future regulatory requirements (i.e., Principles, EU Green Bond Standard).
- ☐ collateral that is screened based on ESG criteria, often at the issuer level

☐ Repo transactions with sustainable counterparties

☐ Sustainable Use of Proceeds (UoP) repo transactions

☐ Sustainability-Linked (SL) repo transactions

☐ Other. Please specify: ______________________________

ii. *What are the main motivations?*

☐ Commitment to sustainability as part of organisation's broader strategy

☐ Investor/external demand

☐ Financial incentives

☐ Risk mitigation and portfolio diversification

☐ Other, please specify: ______________________________

☐ **No**

i. *If no, what are the main reasons/obstacles?*

☐ Regulatory uncertainty – lack of regulatory guidance

☐ Regulatory uncertainty – lack of regulatory enforcement

☐ Lack of understanding, i.e., not fully clear how to incorporate sustainability into the firm's financing/investment strategies

☐ Lack of attractive investment opportunities/limited investor demand

☐ Lack of financial incentives

☐ Limited availability of sustainable collateral

☐ Data constraints i.e., poor availability, comparability or quality of ESG data

☐ Higher costs i.e., in sourcing sustainable projects/assets, enhanced due diligence, compliance with standards, and reporting

☐ Limited resources i.e., data and analytics capabilities, shortage of expertise/qualified staff

☐ Greenwashing risks

☐ Other, please specify: ______________________________

ii. *Would your firm consider implementing ESG criteria in repo transactions if it was not currently doing so?*

☐ Yes, in the short-term (in the next 1-6 months)

☐ Yes, in the medium-term (in the next 6-12 months)

☐ Yes, in the long-term (in the next 1-2 years)

☐ Do not consider within the next 2 years

c) ***Considering your responses to the previous question, which of the categorisation should ICMA prioritise for future work and development?*** (tick all that apply)

☐ Repo against sustainable collateral

☐ Sustainable Use of Proceeds (UoP) repo

☐ Sustainability-Linked (SL) repo

☐ Repo with sustainable counterparties

☐ Other areas, please specify: __________________________

Please elaborate on the specific areas that you would like ICMA to focus on: _____________________

2. SUSTAINABLE USE OF PROCEEDS REPO [Optional]

When transacting a sustainable use of proceeds (UoP) repo:

a) ***Do you think any conditions should be applied to the underlying collateral, e.g., sustainable assets inclusion or 'brown' assets[14] exclusion?***

☐ Yes, what exclusionary criteria should be applied to the underlying collateral? ________________

☐ No

Comments: ______________________

b) ***What do you think is/are the most appropriate tenor(s) for UoP repos?***

☐ Less than 1 month

☐ 1-6 months

☐ 6 months or more

☐ Other, please specify: ______________________________

c) ***In your view, should any cash margin be reinvested in line with the UoP conditions?***

☐ Yes

☐ No

Comments: _______________________

d) ***Should the use of proceeds conditions be referenced in repo documentation?***

☐ Yes, please specify what aspects of the use of proceeds should be included: __________________

☐ No, please specify where should the use of proceeds conditions be reflected: _________________

e) ***Do you believe that Sustainable UoP repos require more frequent reporting than annually?***

☐ No

☐ Yes

- ☐ Semi-annual
- ☐ Quarterly
- ☐ Other, ______________

Comments:_________________________

f) ***Do you think UoP repos could be transacted independently outside an overarching sustainable finance framework, despite the challenges associated with using short-term repo for long-term sustainable financing?***

☐ Yes, please comment: ________________

☐ No, please comment: _________________

14 Assets that have a negative environmental association, damage the climate or contribute to the climate challenge.

g) ***Do you think additional guidance is needed for trading UoP repos?***

☐ Yes, UoP repos require a separate set of guidance

☐ Yes, although some of the core components/key recommendations from the Principles could be adapted to UoP repos:

☐ Use of Proceeds

☐ Process for Project Evaluation and Selection

☐ Management of Proceeds

☐ Reporting

☐ External Reviews

☐ Bond Framework

☐ No, the existing Principles (i.e., GBP, SBP and SBG) can be applied to UoP repos directly

☐ No

Comments: ______________________

3. SUSTAINABILITY-LINKED REPO [Optional]

When transacting a sustainability-linked (SL) repo:

a) ***What ESG Key Performance Indicators (KPI) have you observed in SL repo transactions?*** (tick all that apply)

Environmental

☐ Air quality

☐ Biodiversity (incl. soil/land use)

☐ Climate change (GHG emissions and energy)

☐ Raw material sourcing and recycling (circular economy)

☐ Supply chain

☐ Sustainable aquaculture/animal welfare

☐ Sustainable water management

☐ Waste management

☐ Other (please specify):______________

Social

☐ Access & affordability (incl. access to medicine)

☐ Community & Human rights

☐ Customers (incl. relation and welfare, responsible marketing and product labelling)

☐ Diversity, Equity & Inclusion

☐ "just transition"

☐ Occupational Health & Safety

☐ Working conditions (employee engagement, labour practices and labour rights)

☐ Other (please specify):_______________

Governance and other themes

☐ Business ethics

☐ Consumers (incl. relation and welfare, responsible marketing and product labelling)

☐ Data protection & security (incl. cybersecurity)

☐ Product governance (safety & quality)

☐ Value chain

☐ Health*

☐ Poverty and inequality*

☐ Other (please specify):_______________

** Themes relevant for sovereign issuers*

Comments: ______________________

b) ***Do you think any conditions should be applied to the underlying collateral, e.g., sustainable assets inclusion or 'brown' assets exclusion?***

☐ Yes, what exclusionary criteria should be applied to the underlying collateral? ________________

☐ No

☐ Other comments: ____________

c) ***What do you think is/are the most appropriate tenor(s) for SL repos?***

☐ Less than 1 month

☐ 1-6 months

☐ 6 months to 1 year

☐ Above 1 year

☐ Other, please specify: ______________________________

d) ***Where have you observed ESG SPTs or KPIs being referenced?*** (tick all that apply)

☐ In the GMRA

☐ In the trade confirmation

☐ In a separate agreement

☐ Other: _______________________

e) ***Anecdotal evidence suggests that SL repos usually occur under the umbrella of a sustainable finance framework rather than on a standalone basis due to the challenges of using short-term repo for long-term sustainable financing. Do you think SL repos could be transacted independently outside an overarching framework?***

☐ Yes, please comment: ________________

☐ No, please comment: _________________

f) ***How effective are penalty mechanisms, such as unfavourable repo rates or sustainability premium payments, in making SL repo transactions credible when borrowers fail to meet pre-defined SPTs or KPIs?***

☐ Effective, additional comments: ____________

☐ Ineffective, please specify reasons:

- ☐ The spread between the discounted repo rate and the penalty repo rate is too small.
- ☐ The sustainability premium payment is too small.
- ☐ Other, please specify: _____________

g) ***Do you think additional guidance is needed for trading SL repos?***

☐ Yes, sustainability-linked repos require a separate set of Principles/guidance

☐ Yes, although some of the core components/key recommendations from the Principles could be adapted to SL repos:

- ☐ Selection of Key Performance Indictors (KPIs)
- ☐ Calibration of Sustainability Performance Targets (SPTs)
- ☐ Bond characteristics
- ☐ Reporting
- ☐ Verification

☐ No, the existing Principles (i.e., SLBP) can be applied to SL repos

☐ No

Comments: ___________________________

4. REPO WITH SUSTAINABLE COLLATERAL [Optional]

a) ***In your opinion, what steps could be taken to enhance the liquidity of transactions involving sustainable collateral?*** (tick all that apply)

☐ Increase of issuance in the sustainable bond market

☐ Incentives through regulatory and central bank channels, such as capital relief or favourable conditions for financing or refinancing operations involving sustainable collateral

☐ Development of green repo market best practices and industry guidelines

☐ Introduction of standardised Triparty and GC baskets

☐ Expansion of eligible securities available at central clearing counterparties (CCPs)

☐ Other. Comments: ___________________________________

Additional comments: ___________________________________

b) ***What factors do you believe contribute to the limited liquidity in trading sustainable bonds as collateral in dedicated Triparty Repo and GC Repo baskets/transactions?*** (tick all that apply)

☐ Restricted number of eligible sustainable bonds for collateral

☐ Bonds that are eligible can also be used in more liquid baskets/transactions

☐ Insufficient demand from clients

☐ Inadequate own inventory available for use

☐ Other. Comments: ___________________________________

Additional comments: ___________________________________

5. REPO WITH SUSTAINABLE COUNTERPARTY [Optional]

a) ***Which of the following best describes your current approach regarding counterparty considerations?***

☐ 'Pure plays' – consider counterparties with a focus only on sustainable and ESG-aligned business

☐ External ESG ratings – rely on external ESG ratings when selecting counterparties

☐ Internal assessment – rely on internal assessment of the counterparties' ESG credentials or internal ESG rating criteria

☐ Combined approach – employ a combination of the above approaches

☐ Other approach. Comments: ______________________

6. LEGAL CONSIDERATIONS

a) ***When a counterparty does not satisfy the relevant ESG obligations of a given transaction (beyond any pricing adjustment trigger), should this constitute an event of default?***

☐ Yes

☐ No

☐ Should be considered as other events, i.e., a 'termination'.

Comment: _________________________

b) ***Do you think an Annex/supplemental clause to the GMRA dealing with sustainability would be beneficial?***

☐ Yes, which sustainable features are most relevant for documentation standardisation?

- ☐ Use of proceeds (including monitoring and reporting the cash proceeds), please comment: __________________________
- ☐ Sustainability-linked (including pricing rate adjustments or sustainability premium payments), please comment: _____________________
- ☐ Other, please comment: _______________________

☐ No

☐ Any bespoke contractual provisions should be individually negotiated.

Comments: ____________________________

7. ACCOUNTING CONSIDERATION

a) ***In the case of repos against sustainable collateral, there seems to be a general market consensus that only the repo seller, who retains the economic exposure to the assets, should be entitled to claim the green investment. However, when the sustainable collateral is reused, how can we prevent the potential issue of inflating overall green investment claimed in this scenario?***

Please comment: ________________________________

List of respondents

ABN AMRO Bank

Belfius

BNP Paribas

Bundesrepublik Deutschland Finanzagentur GmbH

Commonwealth Bank of Australia

Deutsche Bank

Erste Group Bank AG

Eurex

Euroclear Bank

HSBC

Lloyds Bank

LSEG

Moody's

Morningstar Sustainalytics

NatWest

NBC Global Finance Limited

Santander

Société Générale

Standard Charted

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