

FinTech solutions in Green Finance

December 2018

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In order to deliver on the UN Sustainable Development Goals and the Paris Agreement on Climate Change, it is estimated that around USD 5-7 trillion of sustainable investment is required on an annual basis. The FinTech industry, with its technological agility and emphasis on innovation, has the potential to mobilise both public and private financing to help scale up green investment to meet this goal.

Introduction

Green Finance has largely followed a top-down approach to date, with supranational organisations and sovereigns leading the way with large-scale international capital markets issuances. Although these transactions are encouraging, the level of investment required in order to meet the UN Sustainable Development Goals requires a far greater range of solutions. With a growing number of investors looking for opportunities to invest in sustainable finance, whether through integration of environmental, social and governance (“ESG”) criteria into financial decision-making or through active financing of sustainable projects such as renewable energy plants or green infrastructure, there is a growing need for green capital redeployment.

FinTech solutions can assist with this in a number of ways, from providing the computing power for big data analysis of datasets and methodologies to standardise green reporting, making it easier for investors to monitor their green investments, to creating digital platforms to facilitate green capital markets issuances, even on a smaller scale, allowing a greater number of Issuers to access the capital markets for their green financing needs.

Our capital markets and sustainable finance teams continue to be at the forefront of these developments in the market due to our unique position as market leaders in both areas of practice. Our work on the recent VERBUND AG digital green Schuldschein transaction offered an unprecedented opportunity to harness an innovative FinTech solution and apply it in a capital markets context. The deal demonstrates the potential for further applications of FinTech solutions to different capital markets products.

Case Study

VERBUND AG

In March 2018, White & Case advised Austrian energy company VERBUND AG on the structuring, documentation and placement of a green Schuldschein via the fully integrated digital issue platform ‘vc trade’ (“vc trade”). The transaction combined two major trends: green capital market issuances and the digitisation of capital markets-related processes and products.

VERBUND AG’s EUR100 million green Schuldschein is the first transaction of its kind, with a ten-year term and a fixed interest rate. The transaction was arranged by Landesbank Hessen-Thüringen, one of the leading arrangers

of Schuldschein loans. Sustainalytics provided a second party opinion confirming that the transaction was in line with the Green Bond Principles. The proceeds are intended to be used exclusively for the revitalisation of the 220 KV St. Peter Hart power grid in Ernstshofen. The revitalisation will increase the security of supply, grid stability and operational efficiency, reduce grid losses by around 70 per cent. and diminish grid noise. Once the revitalisation process is complete, electricity generated from renewable sources of energy in this section of the power grid (around 110 km long) will be fed into the grid from the Aschach power plant on the Danube and several wind power plants, before being distributed to some 250,000 households and 50,000 companies.

For VERBUND AG, this transaction represented a further milestone in its twofold strategy of digitalisation and environmental sustainability. It was the first company to utilise a FinTech solution, vc trade, to structure and execute its entire green Schuldschein transaction. vc trade is a centralised digital issuance platform for private placement transactions. Based on up-to-date technology, the digital platform supports all major steps throughout the transaction including mandating, structuring, documentation, marketing, settlement and post-settlement. The lifecycle management of a transaction can also be done on vc trade as every deal remains on the platform until it matures. For Issuers such as VERBUND AG, the digitalisation of this process reduces issuance and liquidity costs, reduces placement risks and enables smaller issuance volumes.

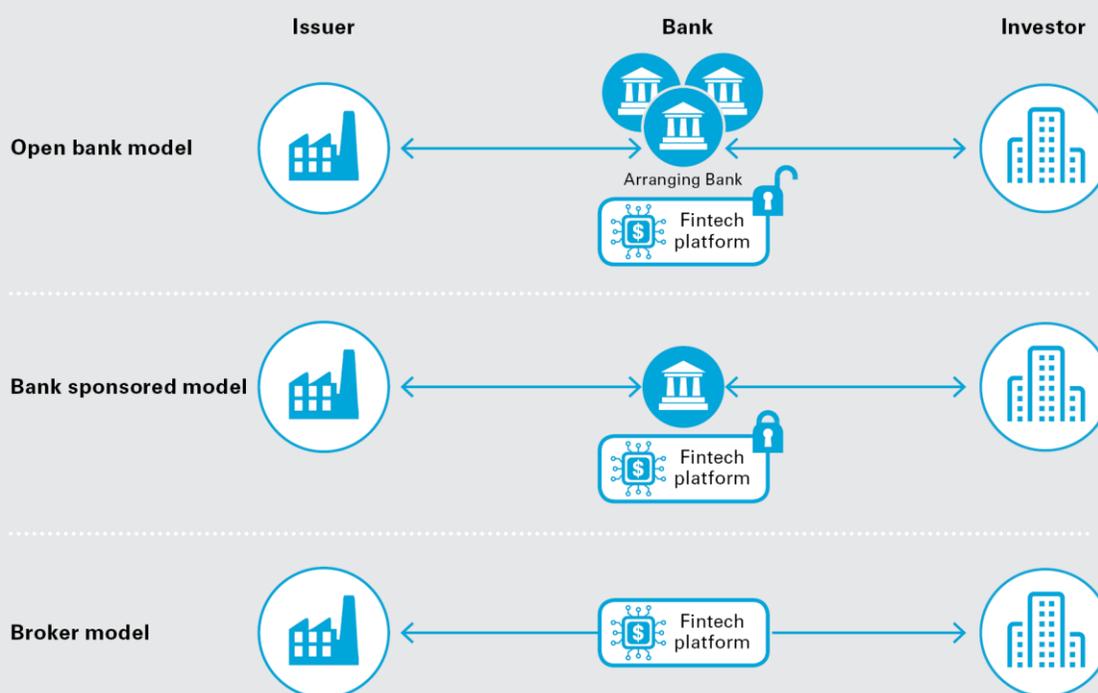
Opportunities for Digitalisation

Digital Issuance Platforms

Although several platforms focus on the digitalisation of Schuldschein processes in recent years, some have developed to facilitate other capital markets products and syndicated loans.

Digital issuance platforms that are currently in use in the market broadly fall into two categories: the transaction support model, where the platform operates to support the arranging banks and the Issuer with existing workstreams and processes related to the transaction, and the broker model, where the relevant FinTech product acts as a direct lending platform for Issuers. The platforms that work to support arranging banks can be further divided into open bank models and bank sponsored models. Open bank models allow any bank that is successfully on-boarded onto the system to process Schuldschein transactions; whereas bank sponsored models are used by banks that choose to operate specifically on that one particular platform. What each of the platforms have in common is that the process of marketing a Schuldschein transaction (in essence, the front end of an issuance) is digitalised, and as a result, transaction costs are reduced and the timeframe for a transaction shortened in comparison with the traditional procedure for marketing Schuldschein transactions.

Digital issuance platforms



Source: White & Case

Key benefits of digitalisation for sustainable finance transactions

1. **Targeted approach:** Platforms enable Issuers and arrangers to select and target investors who are focused on sustainable finance products and ESG-led investments.
2. **External Review:** A key feature of the green bond market is the increased levels of audit (including second party opinions, verification, certification and ratings), which improve the marketability of green issues. Platforms allow digital access to the results of any external review.
3. **Reporting:** Green transactions generally impose periodic reporting requirements on Issuers. Platforms allow this process to be completed efficiently using lifecycle management tools, as reports (in line with impact reporting templates) and other information can be distributed in a timely manner to all investors and all communication with investors can be conducted in a centralised fashion.
4. **Small-scale issuances:** Platforms may enable Issuers to issue smaller scale volumes, which may better match the requirements of certain types of transactions such as sustainable project financings. This mitigates the costs that may result from one-off large-scale financings.
5. **Fostering green finance issues:** Digital platforms increase the efficiency and speed of a transaction and decrease transaction costs.

Schuldschein – Green Shoots in the European Market

Generally, a Schuldscheindarlehen is a privately placed (typically unsecured and unsubordinated) loan agreement governed by German law, which comprises two elements: a loan agreement and a separate certificate (a Schuldschein) which states that the loan has been granted. Although the certificate does not actually constitute a security under German law, it can be an attractive financing option for corporates that require medium to long-term financing, because it offers easy, inexpensive access to capital markets. In 2017, the total issue volume for Schuldschein was EUR29 billion, with the average deal size being EUR160 million.

2016

Although the Schuldschein market was initially fairly niche, in 2016 it became an attractive green financing option when a German wind turbine manufacturer issued its first green Schuldschein.

Three further green Schuldschein transactions were launched in 2016 following this successful transaction.

2017

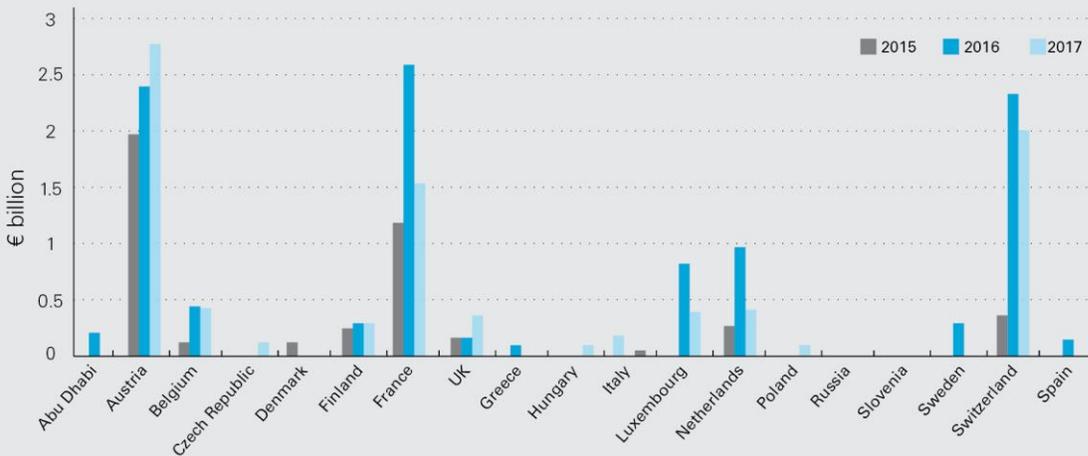
Green Schuldschein continued to grow in popularity, with three deals launched in 2017 and seven in 2018.

This led to a further internationalisation of the Schuldschein market when Dutch, Spanish and Swiss corporates began to tap into the green Schuldschein market as well.

2018

The digital green Schuldschein transaction in November 2018 by enercity, a company backed by the City of Hanover demonstrates a further milestone in the expansion of this market – going forward, municipalities that have previously issued Schuldschein may now consider offering green instruments instead.

The Schuldschein's growing internationalism



Source: Helaba

Conclusion

VERBUND AG's digital green Schuldschein was the world's first placement of such an instrument on a FinTech platform. It has generated interest from other market participants and we predict that the utilisation of similar technology in sustainable transactions will become mainstream in the near future.

This ground-breaking transaction is just one example, however, of how FinTech solutions are affording Issuers efficiency gains and greater opportunities to access the international capital markets, both by streamlining the logistics of a trade and by reducing cost and the barriers to entry.

White & Case's global team of capital markets lawyers and FinTech experts regularly assist our clients in meeting their environmental goals regardless of the sector in which they operate or where they are located. Our market leading and internationally recognised sustainable finance practice has been involved in sustainable financing from its inception in the corporate sphere and has remained at the forefront of recent innovations in sustainable

financing. Advising on the first green Schuldschein placed via a FinTech platform is another example of the milestones we have accomplished in the sustainable finance area.

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