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IN SEARCH OF SUSTAINABLE FINANCE: A STUDY OF PRACTICES ON THE SLOVAK CORPORATE BOND MARKET / Ján Mazúr, Sabina Petrovičová

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Abstract: *Financial market is expected to play an important role in transition towards more sustainable setup of the business environment. The European Commission published the EU's Strategy for Financing the Transition to a Sustainable Economy in 2021, requiring the inclusion of environmental, social and governance considerations into investment decision making. Yet, small, open EU economies, such as Slovakia, are in a specific position when implementing this legal framework. For instance, Slovakia does not have any meaningful stock market to speak of, although its bond and collective investment markets perform better. To assess the adoption of sustainable finance elements and to assess the convergence on the Slovak bond market towards standard practice, we investigated current practices on the corporate bond market of nonfinancial corporations. We conducted our research through a review of corporate bonds prospectuses published during 2020-22, in which, to assess current market practices, we examined and evaluated selected criteria and indicators related to issuers and bonds and compared them. These criteria include for example issuer´s business and purpose of finance, form, yield, security, or transferability of bonds. We find that relevant variable criteria and indicators related to reviewed bonds, compared in our research, are similar, indicating that the market converged into a standard practice. Finally, we find almost no evidence of adoption of the sustainable finance elements although there are hints of market uptake of sustainable practices.*

Key words: *Sustainable Finance; EU Sustainable Finance Strategy; EU Taxonomy; ESG Considerations; Financial Market; Corporate Bonds; Green Bonds; Slovak Capital Market*

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1. INTRODUCTION

The EU's objective to reorient capital flows towards financing sustainability, as established by the European Commission's 2018 Action Plan on Financing Sustainable

Growth, included 10 key actions.[1] Among these actions rested a crucial requirement for common taxonomy for a number of environmental objectives, including climate change mitigation and adaptation, which took form in the so-called EU Taxonomy Regulation, entered into force on 12 July 2020 (hereinafter "**Taxonomy Regulation**").[2] The regulation enables market participants to recognise the activities enabling sustainable growth and therefore assess their contribution to sustainable growth through investments. The regulation's objective is to provide "[a] *clear guidance on activities that qualify as contributing to environmental objectives* [which] *would help inform investors about the investments that fund environmentally sustainable economic activities.*"[3]

The EU Taxonomy Regulation operationalises the environmental objectives through the following elements. First, it establishes the criteria for determining whether an economic activity qualifies as environmentally sustainable to evaluate an investment towards such activity as environmentally sustainable. The criteria for environmental sustainability of economic activities include:[4] (i) a contribution to environmental objectives as laid out in the Art. 9 and subsequent of the regulation, including climate change mitigation and adaptation, but also objectives beyond climate action, such as the sustainable use and protection of water and marine resources or the transition to a circular economy and pollution prevention and control; (ii) an economic activity does not significantly harm any of these environmental objectives as based on an objective-specific qualification under the Art. 17 of the regulation; (iii) an economic activity is carried out in compliance with the minimum safeguards established by international documents and guidelines, as laid down in Art. 18; and (iv) an economic activity must comply with technical screening criteria established by the European Commission under Art. 19 of the regulation.

Building on the EU Taxonomy Regulation, the EU Green Bond Standard tackles the challenge of no uniform green bond standard within the EU.[5] However, the EU Green Bond Standard, a voluntary, taxonomy-aligned standard that includes transparent reporting and review, is in force only since the beginning of 2024.[6] The European Green Bonds (hereinafter "**EuGB**") are thus a novel, although optional, addition to the regulatory landscape of European sustainable finance, allowing an exclusive use of the designation "European Green Bond" or "EuGB" for bonds that comply with the requirements set out in the EuGB Regulation. The EuGB Regulation mandates that the proceeds of the EuGB must be used fully in alignment with the taxonomy requirements, as set forth in the Art. 3 of the Taxonomy Regulation.[7] The verification of the allocation of the bond proceeds takes place through a regular allocation report verified by third-party independent reviewers.[8] Additionally, issuers of EuGB are obligated to draw up and publish a European

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[1] European Commission. (2018). Action Plan: Financing Sustainable Growth. COM(2018) 97 final. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097 (accessed on 22.06.2024).

[2] Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (Text with EEA relevance). Official Journal of the European Union, L 198, 22.6.2020, p. 13–43.

[3] Rec. 6 of the Taxonomy Regulation.

[4] Art. 3 of the Taxonomy Regulation.

[5] For more see: The European green bond standard – Supporting the transition. Available at: https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/european-green-bond-standard-supporting-transition_en (accessed on: 26.09.2023).

[6] Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds (hereinafter „**EuGB Regulation**").

[7] Art. 4 (1) of the EuGB Regulation.

[8] Art. 11 of the EuGB Regulation.

EuGB impact report on the environmental impact of the bond, after the full allocation of the proceeds.[9]

Next, sustainability should be built into the fabric of the financial system through key market actors who make investment decisions on behalf of investors or are in a position to influence investors' decision-making, such as financial advisors and asset managers. As a result, changes to MiFID II[10] and Insurance Distribution Directive[11] regimes have been introduced, leading investment firms and insurance distributors to inquire and consider their clients' sustainability preferences (such as environmental, social and governance factors, hereinafter "**ESG factors**") when assessing the range of financial instruments and insurance products to be recommended.[12] Another piece of European legislation in the sustainability arena is the so-called Sustainable Finance Disclosures Regulation (hereinafter "**SFDR**"), which regulates the transparency of financial market participants and financial advisers with regard to the integration of sustainability risks and the consideration of negative sustainability impacts in their processes and the provision of sustainability-related information specific to individual financial products.[13] During the first years of the EU's strengthened approach to financing sustainability, it may be useful to review how these changes, but also the non-legal, market tendencies towards sustainability, affect the Slovak financial market, especially the growing corporate bond market. However, we hypothesise that the impact of these policies will be limited during the observed period (2020-2022) due to the limited time frame during which these policies have been in force.

The Slovak financial market is based on a large banking sector, which holds around 70% of the assets of financial markets in Slovakia (2019) (National Bank of Slovakia, 2020, p. 17). The banking sector is thus also the primary source of funding for the Slovak corporate sector, besides intra-group funding of the Slovak subsidiaries of multinational corporations. The Slovak regulated market, the Bratislava Stock Exchange, shows close-to-zero viability for equity finance, yet the bond market has grown rapidly in the past two decades, from 2,7 billion EUR in 2000 to over 73 billion EUR in 2023 (Bratislava Stock Exchange, 2024, p. 6). This considerate growth, however, still relates to bonds being mere 3,5% of the total corporate liabilities (by the end of 2021) (Lintner, 2022) and bonds representing only 317 million EUR worth of trades on the stock exchange in 2023 (Bratislava Stock Exchange, 2024, p. 6).

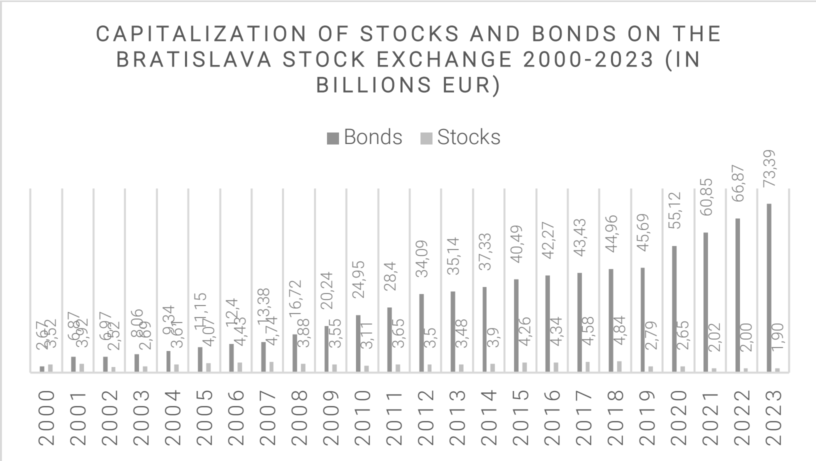
[9] Art. 12 of the EuGB Regulation.

[10] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (recast) (Text with EEA relevance) (hereinafter „**MiFID II**").

[11] Directive (EU) 2016/97 of the European Parliament and of the Council of 20 January 2016 on insurance distribution (recast) (Text with EEA relevance) (hereinafter „**IDD**").

[12] Changes occurred to the following delegated regulations: (i) Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (Text with EEA relevance) for MiFID II; (ii) Commission Delegated Regulation (EU) 2017/2359 of 21 September 2017 supplementing Directive (EU) 2016/97 of the European Parliament and of the Council with regard to information requirements and conduct of business rules applicable to the distribution of insurance-based investment products (Text with EEA relevance.) for IDD.

[13] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (Text with EEA relevance).



Graph no. 1: Capitalization of stocks and bonds on the Bratislava Stock exchange during 2000-2023 (in billions EUR)
(Source: Bratislava Stock Exchange, 'Annual Report 2023' (2024), 6)

Bonds are a solid source of long-term funding for corporations, such as real estate developers, or established non-financial corporations. In comparison with bank loans, the terms of bonds offerings are to a larger extent under control of the issuer, who has freedom to carefully manage bonds variables, such as the yield, security, or rights of the bond holders, typically in close cooperation with an investment firm arranging and placing the issue (book runner).[14]

Corporate bonds also represent an investment opportunity for households, but carry significant risks, mainly the risk of issuer's default and subsequent loss of investment. Honest and thorough description of risks to potential investors prior to subscription of the investment is thus a required practice, as based on Art. 7 and 16 of the Prospectus Regulation.[15] The risk assessment, among other criteria, consequently leads to marketability to respective classes of investors. The Prospectus Regulation distinguishes between qualified investors, i.e., clients according to the MiFID II classification[16], and non-qualified investors. The issuers are generally provided with more lenient requirements in their offerings when dealing with qualified investors, although additional criteria factor in, such as the number of persons whom the offer is addressed,

[14] See generally: Brealey, Myers, Allen, and Edmans (2023).
[15] Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (Text with EEA relevance) (hereinafter „Prospectus Regulation").
[16] Art. 2(e) of the Prospectus Regulation, which makes a reference to Annex II and Art. 30 of the MiFID II. In connection with investor protection, the NBS issued its Opinion of Capital Market Supervision Department of the NBS, dated 28.04.2021, on distribution of corporate bonds unifying rules for sale procedure of corporate bonds focused on protection of retail (non-professional) clients. The opinion establishes principles of providing services by distributors (banks, dealers, agents) including fair trade principle or duty of care principle; information on high-risk bonds; requirements for knowledge and experience of salesmen of corporate bonds; and requirements for communication with clients. For more see: National Bank of Slovakia (2021).

denomination of security or minimum investment volumes per investor.[17] Furthermore, there are several variables of corporate bonds, such as the form of the issue, yield, existence of security, limitations to transferability, or early redeemability, which influence risk factors of bond issues. As finance is expected to play a significant part in transition towards sustainability, it is useful to review whether the corporate bond market adjusts to the expected role.

Given the actuality and importance of the topic of sustainability and environmental protection, we examined whether any of the issuers issued green bonds. As the term 'green' implies, by issuing this type of bonds, issuers raise funds to implement and support sustainable, environmentally friendly projects, e.g., projects related to “clean” transport (electromobility) or construction of low-energy buildings.[18] The criteria for the classification of a bond as a green bond are set out in respective regulatory standards, including the EuGB Regulation, Climate Bonds Initiative[19] or the Green Bond Principles (GBP), which are determined by the International Capital Market Association (ICMA); the Slovak legal regulation does not recognise green bonds as a separate type of bond.[20]

To prove compliance with the criteria for green bonds, one of the ESG certification is used. Generally, ESG criteria include the (i) environmental (e.g., use of resources and materials, emissions); (ii) social (e.g., assessment of working conditions, respect for human rights); and (iii) governance (e.g., emphasis on management or internal control procedures of the company). A list of environmentally sustainable economic activities is established by the Taxonomy Regulation.

2. METHODOLOGY

For the purposes of reviewing the practices of corporate financing through the issue of bonds, as well as of reviewing sustainable finance take-off in the Slovak Republic, we examined bond prospectuses of corporate bond issues during 2020-2022. The issuers were drawn from among the entities listed in the list of issuers for the regulated market available on the website of the Slovak regulator, the National Bank of Slovakia (“NBS”).[21] The Slovak bond market is notoriously small; therefore, the reviewed batch of published bonds issued over three years represents de facto the whole market.

Most issuers are various non-financial companies that, in our opinion, have a long-term and relatively stable market position. Moreover, some of the issuers are special purpose vehicles (“SPV”), so-called project companies, of well-known investment groups or real estate developers. Project companies are companies created for specific purpose – to raise funds for a specific project (such as a property development project), or to provide intra-company financing for a group or their parent company. Project companies

[17] See for instance Art. 1 of the Prospectus Regulation.

[18] Although bonds may be classified as green, there are still some risks that financed outcomes will not continuously meet investors’ expectations in relation to sustainability or environmentally friendly requirements as it is possible that sustainability or environmental impact will change during the implementation of a project for which raised funds would be used, or that projects would have some (even minimal or indirect) negative impact on environment.

[19] For more see: Climate Bonds Initiative. Available at: https://www.climatebonds.net (accessed on 04.05.2023).

[20] International Capital Market Association (ICMA). Green Bond Principles (GBP). Available at: https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/ (accessed on 11.09.2022).

[21] For more see: Centrálna evidencia regulovaných informácií [Central Register of Regulated Information]. Available at: https://ceri.nbs.sk/ (accessed on 04.05.2023).

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usually do not carry out other significant business activities. These types of companies dominated the list of issuers held by the NBS.

For the purposes of our research, we undertook a qualitative review of individual bond prospectuses for selected legal and economic criteria. We worked with the information available in NBS database of the published prospectuses, including an export of summary spreadsheet with certain metadata on prospectuses and links on prospectuses and supplements published during 2020-2022. Certain prospectuses were missing even on the webpages of the issuers. In our qualitative review, we considered and coded the text of key words in individual prospectuses for the following legal and economic criteria:

- the purpose of bond issue: expansion of activities, operating credit or refinancing and restructuring; whether the funds are used by the issuer solely or by the group;
- the presence of any ESG criteria or reference;
- type and form of bonds: certificate or book-entry, registered ownership or bearer-bonds;
- yield: fixed-rate, floating rate or set as the difference between the face value and the issue price;
- security: whether an issuer provides any security and the form of security provided;
- transferability: limitations to transferability;
- early redeemability: issuer or holder-triggered;
- convertibility: whether bondholders can trigger automatic conversion to stocks;
- target group of investors: what type of investors can invest in corporate prospectuses (MiFID II classification).

Subsequently, we compared the results of individual prospectuses to assess the prevailing market practices. As a result of the research conducted, we summarise the information and describe the market practice of corporate financing through bond issues in the Slovak Republic, which we present in the text below.

3. FINDINGS

There were altogether 177 prospectuses or supplements approved by the Slovak regulator, the National bank of Slovakia, in 2020-2022 (see chart no. 1). 38 or 21 % of these were supplements to existing published prospectuses, therefore 139 prospectuses represent the basis (100%) for further presentation of findings. Almost one-quarter of published prospectuses were in the form of *base prospectus* as stipulated by art. 8 of the Prospectus Regulation, leaving a possibility of skewing the results of the study by final terms having changed the base prospectuses.

	2020	2021	2022	**Total**
Prospectus	33	39	33	**105 (59 %)**
Base prospectus (art. 8 Prospectus Regulation)	10	9	14	**33 (19 %)**
Supplement to Base prospectus	8	3	16	**27 (15 %)**
Supplement to Prospectus	1	6	4	**11 (6 %)**
Registration document	1	0	0	**1 (0,5 %)**

Total no. of offerings	53	57	67	177

Chart no. 1: Breakdown of prospectuses or supplements approved by the National bank of Slovakia, in 2020-2022 (Source: NBS, 2023)

As shown below, issuers typically offer their securities to the public directly through securities dealers (Slovak variant of an investment firm under MiFID) or through the regulated market. Prospectuses and their supplements are thus mostly approved by the NBS to allow issuers to offer securities to the public and/or trading on a regulated market. Use of multilateral trading facilities in Slovakia is negligible.

	2020	2021	2022	**Total**
Offer of securities to the public	24	27	25	**76 (43%)**
Offer of securities to the public + Admission to trading on a regulated market	20	20	31	**71 (40%)**
Admission to trading on a regulated market	9	10	9	**28 (16%)**
Secondary offer of securities to the public	0	0	1	**1 (0,5%)**
Offer of securities to the public + Admission to trading on a multilateral trading facility (point (22) of Article 4(1) of Directive 2014/65/EU)	0	0	1	**1 (0,5%)**
Total no. offerings	**53**	**57**	**67**	**177**

Chart no. 2: Breakdown of prospectuses or supplements approved by the National Bank of Slovakia, in 2020-2022 (Source: NBS, 2023)

Great majority of prospectuses were issued by non-financial corporations (123 or 88 %), around 10% were issued by banks (14), the remainder were issued by other financial institutions (2).[22]

Non-financial corporation	123 (88%)
Bank	14 (10%)
Securities dealer	1 (0,7%)
Asset management company	1 (0,7%)
Total no. of offerings	**139**

Chart no. 3: Breakdown of categories of issuers of respective offerings of prospectuses or supplements to prospectuses approved by the NBS in 2020-2022 (Source: NBS, 2023)

Public offerings in Slovakia are a relevant source of finance for non-financial corporations, yet if we look at the composition of issuers from the corporate groups perspective, we see that there are only a handful of issuers who finance multiple projects or ventures by bonds issues. Nominally, there were 51 non-financial issuers, although once we cluster the issuers into groups of companies, based on publicly available

[22] To distinguish between non-financial corporations and financial institutions we use a formal criterium of having a relevant financial authorisation issued by the regulator. Consequently, non-financial corporations also include companies clearly belonging to groups of financial institutions although they are with no financial markets authorisation and therefore cannot be understood as financial institutions.

information, we learn that 5 issuers, members of corporate groups, were responsible for majority of issues (67 % out of 123 offerings of non-financial corporations), i.e., 83 public offerings (see chart no. 4). These issuers are major Slovak private equity groups, mainly oriented on real estate development, pharmacies, or energy (Penta, J&T, HB Reavis) and smaller boutique financial institutions (Across, SAB).[23]

Penta[24]	49 bonds issues (40 % of 123 offerings of non-financial corporations)
SAB[25]	13 bonds issues (10,5 % of 123 offerings of non-financial corporations)
J&T[26]	10 bonds issues (8 % of 123 offerings of non-financial corporations)
Across[27]	7 bonds issues (6 % of 123 offerings of non-financial corporations)
HB Reavis[28]	4 bonds issues (3 % of 123 offerings of non-financial corporations)
Total	**83 bonds issues (67 % of 123 offerings of non-financial corporations)**

Chart no. 4: Most frequent issuers of prospectuses approved by the NBS in 2020-2022 (Source: NBS, 2023)

Over the years 2020-2022, the number of offerings remained stagnant, 44 in 2020, 48 in 2021 and 47 in 2022 (excluding supplements to prospectuses). Vast majority of the public offerings represent bonds (119; 86 %) and bonds or covered bonds issued by banks (8; 6 %). Shares, investment certificates, shares of collective investment undertaking, notes and bills of exchange represent only a small proportion of the total 139 public offerings, i.e. 12 (<9 %).

	2020	2021	2022	**Total**
Bonds	38	41	40	**119 (86 %)**
Shares	3	2	1	**6 (4 %)**
Covered bonds	1	1	2	**4 (3 %)**
Bonds / Covered bonds	0	2	2	**4 (3 %)**
Investment certificates	1	0	2	**3 (2 %)**
Shares of collective investment undertaking	0	1	0	**1 (0,7 %)**
Bills of exchange	1	0	0	**1 (0,7 %)**
Notes	0	1	0	**1 (0,7 %)**
Total	**44**	**48**	**47**	**139**

[23] The membership of individual issuers in corporate or financial groups was verified by the publicly available records and financial statements. In some instances, when publicly available record of ownership or self-declaration of the issuer or group was not available, we rely on the business name of the issuer including the group name as the common denominator of group membership.
[24] Domestic private equity group active in real estate. Issuers - group members are: Penta Funding Public II, s.r.o.. Penta RE Funding II, s.r.o., Dr. Max Funding, s.r.o.
[25] Domestic financial group. Issuers - group members are: SAB Financial Group a.s., SAB Holding a.s.
[26] Domestic private equity group in real estate. Issuers - group members are: J&T ENERGY FINANCING EUR X, a. s., J&T ENERGY FINANCING EUR XI, a.s., J&T ENERGY FINANCING EUR XII, a.s., J&T Global Finance XII., s.r.o., J&T Global Finance XIV., s.r.o., J&t SECURITIES MANAGEMENT PLC JTRE Financing 4, s.r.o.
[27] Domestic financial group. Issuers - group members are: Across Funding, a.s., Across Properties, a.s.
[28] Domestic real estate group. Issuers - group members are: HB REAVIS Finance SK IX s.r.o., HB REAVIS Finance SK VII s.r.o., HB REAVIS Finance SK VIII s.r.o., HB REAVIS Finance SK X s.r.o.

Chart no. 5: Breakdown of public offerings over years and type of financial instrument (Source: NBS, 2023)

Zooming in on non-financial corporations' public offerings of financial instruments, we see that vast majority of the offerings were for bonds, 116 (94 % out of total 123 public offerings of non-financial corporations during 2020-2022), 6 were offers of shares in joint-stock companies and one corporation offered bills of exchange as a means of financing. The dominance of bonds on the capital market is not surprising due to the overall structure of the Slovak capital market.[29]

Bonds	116 (94 %)
Shares	6 (5 %)
Bills of exchange	1 (1 %)
Total	**123**

Chart no. 6: Non-financial corporations issues breakdown of financial instruments 2020-2022 (Source: NBS, 2023)

In the next section, we focus on the narrower dataset of available prospectuses of bonds offerings by non-financial corporations issued during 2020-2022. Of 116 original bonds issues, 13 prospectuses were not publicly available in the database; therefore, the basis for further data review consists of 103 published prospectuses (116 total – 13 missing = 103 available). Moreover, we also added 14 available supplements as they may represent an amendment of existing prospectus and may change the reviewed criteria (15 total – 1 missing = 14 available). The total number of documents available that were reviewed for the following section is therefore 117, while additional 14 missing prospectuses (13 + 1) are considered as *not available* (N/A).

We see that a vast majority of issuers use proceeds raised by issuing bonds to expand existing or build new business ventures (94), whereas proceeds from 10 offerings are used as regular operating credit without any explicit mention of a new or specific business venture or expansion. Only seven issuers used money to refinance existing debt or restructuring the corporate structure and 12 supplements did not change the existing use of finance (see chart no. 7).

Expansion of existing or building new business venture	94 (80 % of the total 117)
Operating credit	10 (8,5 % of the total 117)
Refinancing / restructuring	7 (6 % of the total 117)
No change	12 (10 % of the total 117)

Chart no. 7: Purpose of the bond issue / use of finance (Source: NBS, 2023), note: some categories are not mutually exclusive, therefore the sum of % shown is larger than 100%

Furthermore, we examine whether corporations claim to use the finance raised by bonds issue for financing group activities or solely for their own respective purposes. Almost 54 % of prospectuses (63 of 117) claim to use the finance for group financing (or at least allow that option open). 35 (30 %) prospectuses or supplements do not provide for this option.

[29] See graph no. 1 above.

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Group	63 (54 % of the total 117)
Issuer	35 (30 % of the total 117)
Issuer and group	7 (6 % of the total 117)
No change	12 (10 % of the total 117)

Chart no. 8: Use of finance for financing intra-group activities (Source: NBS, 2023)

The list of issuers is generally dominated by project companies, as shown above by the prevalence of a few large financial groups using project companies. Although these companies do not carry out any significant business activities and are entities with no business history, these companies are usually part of a stable group or a subsidiary of a large, well-known company, which may make project companies bonds more attractive from an investor's perspective. However, not only the name of an issuer, but also the project for which funds are raised, its purpose and its potential in the future can have impact on the attractivity of corporate bonds from the perspective of investors.

We also investigate the form and type of securities as formal criteria stipulated by the law. The Slovak Securities Act[30] distinguishes *form* ("podoba") and *type* ("forma") of securities, including bonds. As for the form, a bond may be issued either as a *book-entry security* ("zaknihovaný cenný papier") or as a *certificate or paper security* ("listinný cenný papier"), as regulated by the section 10 of the Securities Act. The record of a book-entry security is kept in a register established under the Securities Act (at central securities depositary, a public entity regulated by law and supervised by the NBS). Book-entry securities are dematerialised. A certificate or paper security is issued in a material form. As for the type of a security, issuers may opt either for *registered securities* („cenný papier na meno"), *order securities* ("cenný papier na rad"), or *bearer securities* ("cenný papier na doručiteľa"), although bonds may be issued only as registered securities or bearer securities.[31]

Corporate bonds are normally issued as book-entry securities, which is primarily related to the issuer's intention to apply for admission to trading on the stock exchange market. This is evidenced by the fact that the vast majority of bonds issued publicly in Slovakia in 2020-2022 (99, i.e. 85 %) were issued as book-entry bearer bonds. Only a fraction (3, i.e. 2,5 %) was issued as certificate, registered securities. An issue was issued optionally in the base prospectus to be determined in the final terms in the future.

Book-entry / bearer bonds	99 (85 % of the total 117)
Certificate / registered ownership	3 (2,5 % of the total 117)
Certificate OR Book-entry / bearer or registered bonds in base prospectus (TBD)	1 (<1 % of the total 117)
No change	14 (12 % of the total 117)

Chart no. 9: Type and form of the bonds issued in 2020-2022 (Source: NBS, 2023)

[30] Zákon č. 566/2001 Z. z. o cenných papieroch a investičných službách a o zmene a doplnení niektorých zákonov (zákon o cenných papieroch). (Act No. 566/2001 Coll. on Securities and Investment Services). Collection of Laws of the Slovak Republic. (hereinafter „**Securities Act**").

[31] § 4 zákona č. 530/1990 Zb. o dlhopisoch. (Section 4 of the Act No. 530/1990 Coll. on Bonds). Collection of Laws of the Slovak Republic. (hereinafter „**Bonds Act**").

There are multiple ways in which bond issuers may calculate yield for bondholders.[32] A traditional way is a fixed-rate yield, which provides certainty to both the issuers and bondholders.[33] This option seems to be a preferred option for Slovak non-financial corporations, as during the reviewed time frame 83 issues opted for the fixed-rate (71 %). The second, although significantly less preferred option, is to structure the yield as a difference between the face value and the issue price of a bond. 14 bonds were structured this way (12 %). Handful of issues structured the yield as a floating-rate, or a combination of fixed-rate or floating rate, or some kind of alternative arrangement allowed under the Slovak Bonds Act.[34]

Fixed-rate	83 (71 % of the total 117)
Difference between the face value and the issue price	14 (12 % of the total 117)
Fixed-rate or floating-rate	3 (2,5 % of the total 117)
Alternatives	2 (<2 % of the total 117)
Floating-rate	1 (<1 % of the total 117)
Combined (fixed)	1 (<1 % of the total 117)
No change	13 (11 % of the total 117)

Chart 10: Yield of the bonds issued in 2020-2022 (Source: NBS, 2023)

The transferability of bonds may significantly influence the ability of bondholders to liquidate their bonds if needed. In general, the transferability of securities, including bonds, can be limited or even excluded; however, certain limitations apply under the Slovak law. For example, the transferability of bearer securities may not be limited (or excluded) in any way; in the reviewed issues, 100 bond issues were issued without any limitations as for transferability (85 %), while 2 issues (<2 %) required prior consent of the issuer's general assembly for transfer, and 1 issue provided for the right of first refusal of the issuer.

Without limitations	100 (85 % of the total 117)
Prior consent of the issuer's general assembly	2 (<2 % of the total 117)
Right of first refusal of the issuer	1 (<1 % of the total 117)
No change	14 (12 % of the total 117)

Chart no. 11: Transferability of the bonds issued in 2020-2022 (Source: NBS, 2023)

Next, we zoom in on the option of bondholders to initiate early redemption of a bond. Typically, an early redemption (or early repayment) may be in the interest of bondholders as it provides additional venue to get liquidity (besides secondary market). However, it naturally leads to uncertainty for issuers who may not have sufficient liquidity to satisfy early demand from bondholders. Therefore, we may assume that early redemptions/repayments initiated by bondholders would not be a typical feature of bond

[32] Section 10(2) of the Bonds Act.
[33] Fixed rates were typically up to 6 % p.a. Note that vast majority of issues date prior to recent raises of interest rates.
[34] Also note, that the bonds were issued mostly in the domestic currency euro although some issuers reserved the right to issue bonds in foreign currency.

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offerings. On the other hand, since it is issuers who set the policy of public offerings, they may reserve a right to early repayment initiated by issuers. In fact, 93 issues include a right to early repayment initiated by issuer (79,5 %), either unconditionally (88, i.e., 75 %) or subject to conditions (5, i.e., 4 %). 9 issues completely omit this right on behalf of both issuers or bondholders (8 %), while 1 issue allowed for two-way initiated early redemption/repayment of bonds.

No early redemptions	9 (8 % of the total 117)
Only issuer initiated	88 (75 % of the total 117)
Only issuer initiated subject to conditions	5 (4 % of the total 117)
Both issuer and bondholder initiated	1 (<1 % of the total 117)
No change	14 (12 % of the total 117)

Chart no. 12: Early redemptions of the bonds issued in 2020-2022 (Source: NBS, 2023)

Based on the conducted research, market practice shows that neither the transferability of corporate bonds nor the rights of the bondholders are restricted, provided that the transfer and exercise of rights is carried out in accordance with applicable law. Exceptions regarding limitations may result from specific legal regulations, such as Act No. 7/2005 Coll. on bankruptcy and restructuring, as amended.[35] Holders of corporate bonds are normally not entitled to request early redemption of the bonds; investors (bondholders) get this option, only if the issuer explicitly commits to early redemption at a request of bondholders.[36] Early redemption of bonds is only possible in predetermined cases; this possibility is usually linked to occurrence of a certain event, that includes particularly cases of breach of an issuer's obligations, as based on established market practice. In connection with early redemption of bonds, there is a risk for investors that their investment will not be as profitable as expected due to the loss of interest income and a risk that investors will not be able to invest an early redeemed amount under comparable conditions so that their investment will provide a better or at least comparable profitability.

Another right that may be attached to bonds is the right to convert bonds into stocks. This right may however not be typical in public offerings of bonds, which is confirmed by our review of bond issues in 2020-2022, as no bond issue provides for convertibility of bonds into stocks. We conclude that this venue of reaching out to new prospective shareholders in the public was not very typical in Slovakia during the observed period; corporations continue to be equity-financed through close networks and connections.

No right to convert into stock	103 (88 % of the total 117)
Right to convert into stock	0 (0 % of the total 117)
No change	14 (12 % of the total 117)

Chart no. 13: Convertibility of the bonds issued in 2020-2022 (Source: NBS, 2023)

Debtors may improve their creditworthiness by providing security (collateral) to their creditors, such as a lien on certain assets, a declaration of guarantee of another

[35] Zákon č. 7/2005 Z. z. o konkurze a reštrukturalizácii a o zmene a doplnení niektorých zákonov. (Act No. 7/2005 Coll. on Bankruptcy and Restructuring). Collection of Laws of the Slovak Republic.
[36] Section 12(2) of the Bonds Act.

entity (typically a parent company or other creditworthy entity in a group of companies), or a combination of these securities. After examination of the bonds issues, we see that 32 issues provide no collateral to the bondholders (27 %), while 62 % of issues provide some kind of collateral (73). The most prominent collateral is lien on receivable (42) or lien on other assets, such as shares, specific assets, or receivables, immovable or movable property or even cash. 22 issues provide for declaration of guarantee by other member of the group, typically a parent company or a sister company with strong standing, while 4 issues combined declaration of guarantee and various types of lien.

Lien on receivables	42 (36 % of the total 117)
Other type of lien (receivables and stocks, business share and specific receivables, assets, cash)	5 (4 % of the total 117)
No security	32 (27 % of the total 117)
Declaration of guarantee	22 (19 % of the total 117)
Declaration of guarantee and lien (assets, receivables, cash)	4 (3,5 % of the total 117)
No change	12 (10 % of the total 117)

Chart no. 14: Collateral of the bonds issued in 2020-2022 (Source: NBS, 2023)

Although a security (collateral) does not guarantee investors that they would not lose the invested money in case of default of the issuer, a collateral of corporate bonds may provide at least some mitigation of risks for investors. The risks are often connected with the fact that a collateral is provided by an issuers' parent company or entities within an issuer's group. Thus, if an issuer for which its parent company provides collateral in the form of declaration of guarantee was to default, it is likely that a negative business and economic situation would not only affect solely an issuer but also affect the position and stability of its parent company or a group as a whole.

As project-based bonds provide an alternative to classic bank finance of projects, there are some important benefits and disadvantages to bond project finance (see, e.g., Boudrias and Kotkin, 2012). The main advantages for project owners consist in greater control over conditions of the deal and an off-balance sheet treatment, which results in advantages in risk management and risk isolation through a project-specific company (i.e. special purpose vehicle) from a project sponsor's perspective. However, such isolation comes with the requirement of providing an additional layer of security (collateral) from investors. Some companies seek to increase safety of investment from the investors' perspective by other means, for example, by so-called *project support agreements* ("PSA") (Scherer, 2010, p. 384). Among the analysed prospectuses, this type of agreement was mentioned in prospectuses of a few issuers whose bonds had not been secured by any other form of security within the legal meaning. Under the PSA, the shareholder of an issuer (typically a parent company, so-called *sponsor*) undertakes upon a request of an issuer to provide an issuer with necessary support for an issuer's recovery from the crisis in case it occurs. The purpose of the PSA is to strengthen issuer's credit position and mitigate potential risks associated with crisis. Although this type of agreement is not considered a bond security within the legal meaning, such support may have impact on investors' decision regarding the assessment of safety of their investment. However, in connection with the PSA, it is necessary to point out that this agreement does not establish any special rights, benefits, or claims for bondholders. Bondholders are entitled to file their claims solely against the issuer and do not have any

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claims against the issuer's shareholder providing support for the issuer under the PSA or failing to do so. Bondholders are typically not parties to the PSA and do not receive any specific rights under the PSA.

We also investigated perspective clientele of the public offerings, as offerings to respective investor categories require varying levels of investor protection. The majority of issues (85, that is, 73 %) is orientated on the most general group of investors, that is, retail clients, professional clients, and eligible counterparty as defined by Annex II of MiFID II. 12 issues were offered to a maximum of 150 retail clients and 4 issues were offered solely to general retail clients. Another 4 issues were offered only to professional clients and counterparties.

Retail clients	4 (3,5 % of the total 117)
Retail clients (<150)	12 (10 % of the total 117)
Retail clients / Professional clients / Eligible counterparty	85 (73 % of the total 117)
Professional clients / Eligible counterparty	4 (3,5 % of the total 117)
No change	12 (10 % of the total 117)

Chart no. 15: Clients of the bonds issues issued in 2020-2022 (Source: NBS, 2023)

Finally, we reviewed the prevalence of environmental, social, and governance criteria (ESG) in bonds issues. We find that 97 issues include no information about ESG criteria in prospectuses at all, while 4 include an option to issue bonds as *green bonds* in their base prospectus and 2 include a reference to environmental protection without any measurable commitments.[37] Out of the 4 references to green bonds in base prospectuses, we verified that 2 issuers had not issued bonds as green bonds, 1 had indeed issued bonds as green bonds and we were not able to verify the remaining one.[38]

No ESG	97 (83 % of the total 117)
Option to issue as green bonds	4 (3,5 % of the total 117)
Reference to environmental protection without measurable commitments	2 (<2 % of the total 117)
No change	14 (12 % of the total 117)

Chart no. 16: Prevalence of ESG criteria in bonds issues issued in 2020-2022 (Source: NBS 2023)

[37] One of these two issuers mentions a vague reference to observing ESG criteria with a "focus on innovative and ecological solutions" without any reference to any specific law or standard, indicating a mild marketing hook. The second issuer mentions that the issuer "places high emphasis on the modernisation of technological equipment, thus contributing to the improvement of the quality of the delivered production and the environment". Again, there is no specific commitment to any law or standard.

[38] The green bond issuer is a member of the JTRE group. The group has continued to issue other green bonds since, e.g., for projects Klingerka or Downtown Yards. For more see: https://jtre.sk/dlhopisy (accessed on 04.05.2024). The group does not clearly indicate which green bonds standard it opts in, although it explicitly mentions that the green bonds are not EuGB as based on the EuGB Regulation. It also declares compliance with the Taxonomy Regulation.

4. CONCLUSION

Corporate bonds as an investment option are available basically to all interested parties. Due to the long-term low interest rates of banks' products, clients were looking for other ways to capitalise on their savings, which is why over time corporate bonds have also become a subject of interest for retail clients. Professional and retail clients can typically invest in corporate bonds. However, especially for retail clients, it is extremely important that they consider their investment decision carefully, considering all risks, their skills, experience, and capabilities, as well as consequences in case an investment does not bring expected outcomes. Although corporate bonds may appear to some clients as banking products, namely term deposits, the fundamental difference between corporate bonds and these banking products lies in the protection of the invested (deposited) funds, both economically and legally speaking. While, in the case of a term deposit, the protection of the deposited funds is strengthened by bank supervision and the Deposit Protection Fund, the funds invested in corporate bonds are not protected in such a way. Another difference may be credibility of subject to which deposited funds are entrusted. Compared to other industries, there is a strict legal regulation that states requirements and conditions for banks to carry out their business (particularly capital requirements or requirements for an internal control mechanism). On the other hand, there are no such specific and strict requirements for issuers of corporate bonds therefore there is higher credit risks, risk of default or insolvency. Although the bond prospectus offers detailed information about the issuer, it is possible that an investor gets exposed to unforeseen risks, even resulting in loss invested funds. The consideration of risks connected with an investment should be based on all information available to investors, which is why relevant information should be included within the prospectus.

We have reviewed all available prospectuses (and supplements) published and approved during 2020-2022 by the NBS to assess convergence on certain market practices. Although there are limitations to our research due to the unavailability of some of the prospectuses at the time of closing of the research, we have reviewed the large majority of them and maintain relevance of the research conclusions due to the relatively solid sample. As a conclusion of the review, we may say that the form of corporate financing through the issue of bonds in the Slovak republic, though dominant part of the Slovak bond market overall, is used mainly by large companies and project companies created particularly for raising funds. Number of prospectuses allowed for the use of raised funds intra-group (<60 %), not exclusively for the issuer.

This practice results from the complexity of the process of issuing corporate bonds, both in terms of time and finance. As far as small and medium companies are concerned, we assume that banking finance, such as bank loans, represents a less time and finance consuming, and possibly even more certain way of obtaining funds. Moreover, from a financial point of view, an unsuccessful attempt to raise funds through a bond issue could have a significantly negative impact on a small company's financial situation and stability. Another factor that may discourage small and less well-known companies from financing through bond issue is a risk of investor disinterest; a potential investor is more likely to be attracted by the name of a large, well-known company than by a small, unknown company with no significant business activities or projects.

We also observe specialisation of some private equity groups on financing through bonds issues as almost 2/3 of bonds issues were issued by issuers who are individually members of mere 5 groups. This also proves the point above that companies require a certain level of sophistication and financial health to be able to use bond finance regularly.

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The formal qualities and other requirements of bonds show a clear convergence of market practice: a typical Slovak bond is issued as a book entry bearer bond with fixed-rate yield, with unlimited transferability, allowing for early repayment initiated by the issuer (not by the bondholder), with no right to convert bond into stock. Such typical bond would likely also provide for certain security, likely a lien on receivables or declaration of guarantee by a parent company or other corporate group member. The bond would be offered publicly to all client categories, including retail clients.

Even though the topic of sustainability and environmental protection is one of the most current issues, the review confirms our assumptions that the topic of sustainability in the non-financial corporate bond market is still not relevant in Slovakia. Only a negligible number of issuers mentioned in their prospectuses a possibility of issuing green bonds but none of them committed to issuing them or to any measurable ESG-related KPI (Key Performance Indicators), while vast majority of issuers made no mention of ESG criteria in their prospectuses.[39]

Finally, it is clear from the review that the vast majority of issuers engaged with professional third-party advisors, such as investment banks and securities dealers. Draughting of bond prospectuses is typically entrusted to professional advisors, such as specialised law firms. Anecdotally, we note that majority of issuers appear to have the same structure of the prospectuses, including the same wording of parts of texts, going beyond structure of a prospectus as prescribed by the Prospectus Regulation, indicating that majority of prospectuses were draughted by a smaller group of lawyers, which may also be a driving force behind the market convergence.

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[39] This may however change soon due to the perspective amendment of the Prospectus Regulation, the so-called EU Listing Act Package, which comprises of legislative proposals for the EU regulation regarding capital markets including prominently the Prospectus Regulation. Following the amended EU regulation, issuers of the non-equity securities will need to publish non-financial information whether those non-equity securities are marketed as considering ESG factors or pursuing ESG objectives. In connection with these changes the European Securities and Markets Authority (ESMA) issued a statement on the sustainability disclosure expected to be included in prospectuses (hereinafter "**Public Statement**"). The Public Statement sets out expectations of relation to sustainability-related matters in equity and non-equity prospectuses and clarifies the disclosures required in relation to 'use of proceeds' bonds and 'sustainability-linked' bonds. For more see: European Securities and Markets Authority (2023).

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