European green bonds

To support climate and environmental projects, the European Commission proposed a regulation on a European green bond standard in July 2021. This would establish an official EU standard for green bonds aligned with the EU taxonomy, based on a registration system and supervisory framework for external reviewers. A provisional political agreement reached between the Parliament and Council is scheduled for a vote during the October I plenary session.

Background

Green bonds are debt securities designed specifically to support climate and environmental projects. They are an important tool for green finance and for regulators and markets focused on greening the economy and the financial sector. Green bonds have become very popular among both governments and companies. The EU was a pioneer in the green bond market, and is currently a global leader in issuing green bonds. However, no uniform definition of green bonds exists, complicating their regulation and potentially jeopardising their future development, leading to market disruption through ‘greenwashing’.

European Commission proposal

On 6 July 2021, the Commission put forward a proposal for a regulation on a voluntary European green bond standard (EuGB), aiming to make it available to all issuers (private and sovereign, including those located outside the EU) to help finance sustainable investments. The Commission proposal included four key requirements: 1) funds raised by the bond should be fully allocated to projects aligned with the EU taxonomy; 2) detailed reporting and full transparency on how bond proceeds are allocated; 3) EU green bonds should be checked by an external reviewer; and 4) external reviewers must be registered with and supervised by the European Securities Markets Authority.

European Parliament position

The Parliament’s Committee on Economic and Monetary Affairs (ECON) adopted its report on the proposal on 16 May 2022. It welcomed the legislative proposal while calling for a number of changes, including: introducing transparency requirements for all bonds marketed as green, not just for EuGB; EuGB issuers should have verified transition plans; and stronger supervision. The Parliament and Council negotiators reached a provisional agreement on 28 February 2023, whereby all proceeds will need to be invested in economic activities that are aligned with the EU taxonomy, but allowing some flexibility. Under the agreed text, for those sectors not yet covered by the EU taxonomy, there will be a ‘pocket’ of financed projects not aligned to the EU taxonomy of maximum 15% of the total proceeds. Companies using the standard when marketing a green bond will be required to disclose how investments feed into the transition plans of the company as a whole. Parliament managed to include a framework for greater transparency on green bonds making environmental claims, even when not marketed as EuGBs. With a system for disclosures, any green bond not using the EuGB framework will likely be subject to better market and regulatory scrutiny. The ECON committee approved the agreed text on 24 May 2023. It will now go before Parliament for adoption, in a vote scheduled during the October I plenary session.

First-reading report: 2021/0191(COD); Committee responsible: ECON; Rapporteur: Paul Tang (S&D, the Netherlands). For further information see our ‘EU Legislation in progress’ briefing.

Outcome of the Conference on the Future of Europe: This proposal is relevant for measures 3(9), 11(1), 11(8).