European green bond standard


This briefing provides an initial analysis of the strengths and weaknesses of the European Commission’s impact assessment (IA) accompanying the above-mentioned proposal submitted on 6 July 2021 and referred to the European Parliament's Committee on Economic and Monetary Affairs (ECON).

The initiative is one of the actions to implement the European Green Deal, and it aims to increase the financing of the green economy in view of achieving the EU’s 2030 climate targets. Issuers of green bonds commit to spending the money raised from the investor on environmentally sustainable investments (IA, p. 6). However, there is no common set of rules on green bonds as yet. Issuers and investors use various international market practices and standards, the most common being the green bond principles of the International Capital Market Association (IMCA). While these set out rules for the selection of green projects, the more prescriptive climate bond standard, developed by the Climate Bonds Initiative (CBI), includes a taxonomy with screening criteria for defining green economic activities and also requires a certified external review of the green bond documentation (IA, pp. 7-8). In 2020 the EU adopted its own Taxonomy Regulation, which is an integral part of the present initiative, providing criteria for defining economic activities as environmentally sustainable. The IA builds on the report and usability guide draw up by the Technical Expert Group on sustainable finance (TEG) on a EU green bond standard (EU GBS) (IA, pp. 6, 11). The proposal for an EU GBS was announced in the Green Deal Investment Plan of January 2020 and is part of both the 2021 Commission work programme and the Joint Declaration on Legislative Priorities.

Problem definition

The IA does not discuss all of the details of the existing market practices relating to green bonds – these are taken over as suggested in the TEG report – or any of the principles already adopted by the co-legislators, such as alignment with the EU taxonomy (IA, pp. 11, 24-28). Instead, it focuses on elements to be added to these practices and principles. Unlike the inception impact assessment, which presents three clear overarching problems and describes how they affect issuers and investors, the IA splits the relatively short problem analysis into several parts (which results in some fragmentation and duplication), without, however, indicating overlaps or links (IA, pp. 12-18). The problems facing investors and issuers are presented separately, as are the ways the problem drivers affect the two closely interlinked affected markets – the green bonds market and the market for the external review of green bond standards; in the case of the latter, the review is usually carried out by a third party to provide assurance to investors (IA, pp. 6-8, 16). According to the IA, the main problem for investors is the difficulty – and cost – of identifying high-quality green bonds. It is driven, firstly, by the lack of an agreed definition of green projects and bonds, and secondly, by the lack of transparency regarding the quality of external review of the bonds, and by potential conflicts of interest in the external review market (IA, pp. 12, 16-18). The IA maintains that issuers, the same drivers create similar problems: additional costs for identifying pertinent green bonds.
and uncertainty about what constitutes a ‘green’ project, compounded by the issuers’ fear of potential reputational risks and ‘adverse publicity’ in case an activity linked to a bond is deemed ‘insufficiently green’ (IA, p. 13). The IA explains how because of this uncertainty investors can also be accused of ‘greenwashing’ a bond, i.e. of ‘giving a false sense of sustainability’, without being able to hold the issuer accountable. Such a risk stems from the fact that, since no uniform rules exist, the ‘green promises’ of a bond might feature in marketing documents discussed at an early stage of a transaction, but not in the contractual documents of the asset (IA, p. 14). Due to these risks and uncertainties, the IA concludes that not enough high-quality green bonds are issued compared to the high market demand, and overall, not enough investment is channelled towards projects with substantial climate and environmental impact. This in turn affects citizens and society in their efforts to tackle climate change as a whole (IA, p. 15).

The scope of the problems is illustrated by some quantified information: according to the IA, the green bond market has grown rapidly – both globally and in the EU-27 – in recent years (47.2% in numbers and 50.9% in volume between 2015 and 2020 in the EU), but it only represented 3-3.5% of overall bond issuance in 2019 and remains rather small (IA, pp. 6, 22). The IA indicates that the EU is a global leader in green bonds, accounting for 48% of the around €253 billion global green bond issuances in 2020, but also notes that the EU 2030 climate targets would require energy system investments (excluding transport) of €336 billion alone, i.e. much higher investment levels (IA, p. 5).

The IA cites the frequent oversubscription of green bond auctions and sales to substantiate the lack of supply in green bonds, stating that demand exceeded supply ‘by more than 5 to 1’ in 2019, while acknowledging that the limited amounts of eligible green investment in the issuer’s balance sheet is the main reason for this (which is not the subject of this IA, p. 15). The IA also admits a general limitation of available data, owing to the current incoherent market practices and sporadic reporting. Notwithstanding these limitations, the IA illustrates the relevance of the defined problems and shows they are likely to grow under the baseline scenario, because the overall increasing awareness about the need to address climate change is expected to lead to continuous growth of both the green bond market and the review market. In this regard, the IA projects a yearly EU green bond issuance of €430 billion in 2023, based on CBI data (IA, pp. 7, 18-19, 22-23, 87-92).

The IA also anticipates that the recent EU Taxonomy Regulation would not make the market converge around a single classification of green bonds, a point that could have been explored in greater detail (IA, p. 23). The substantiation of the problems is based on recent research, international data and occasional stakeholder feedback, but could have been more complete on some aspects, such as the particularity and relevance of sovereign issuers and the situation on the external reviews market. The IA states briefly that the moral hazard problem, which reduces trust in the market and increases costs for investors, is ‘less acute’ in the case of sovereign issuance, owing to higher levels of transparency and trust, evidenced in relatively high green bond premia (IA, pp. 9, 11-12, 17). Some information from the annexes could have been helpful in this context, in particular for non-expert readers. The IA refers to transitional sectors in the context of the EU taxonomy, but does not conduct a sectoral analysis as such, nor does it provide information on the potential territorial characteristics of the problem (i.e. which countries or cross-border regions are particularly affected).

Subsidiarity / proportionality

The IA explains the legal basis in detail (Article 114 of the Treaty on the Functioning of the EU, conferring to the EU the competence for the functioning of the internal market), and notes that no Member State has (yet) legislated to establish a green bond standard, but some have introduced labels, contributing to the diverse and insufficiently standardised current practices (IA, pp. 19 and Annex 12). Third countries such as China have adopted legislation in this area, and the IA assumes a ‘widespread expectation’ for a harmonised green bond standard to be established at EU level. It stresses the added value of coordinated EU action in the global green bond market and of a level playing field for EU issuers and investors, facilitating cross-border investment flows (IA, pp. 19-20). In the same vein, the market for external review, ‘inherently cross-border’, is considered in need of
harmonisation. The IA also cites the close link to other EU legislation on sustainable finance to justify the adoption of a new EU regulation. Proportionality is a decisive element for the selection of the preferred option(s) (IA, pp. 31, 32, 34, 157), but the principle is not specifically assessed in the IA, which does not include a subsidiarity grid. The subsidiarity deadline for national parliaments is 27 October 2021.

Objectives of the initiative

The IA’s initial definition of the general objective of the initiative is improved exploitation of the single market to contribute to achieving the EU’s climate and environmental objectives (IA, p. 21). However, it then complements this definition with the following objectives, which appear to be rather specific than general, without any particular order or structure:

- facilitating further development for high-quality green bonds;
- minimising disruption to existing bond markets;
- attracting sovereign issuers to the new green bond standard;
- catering the specificities of sovereign issues;
- improving the ability of investors to identify and trust high-quality bonds;
- facilitating the issuance of high-quality green bonds;
- reducing costs from market fragmentation;
- clarifying green definitions and reducing reputational risk for issuers from sectors that are not sufficiently covered by existing market-based taxonomies;
- including some flexibility for sovereign issuers.

In addition, the IA labels the following two objectives as ‘specific’, but the first repeats one of the above-listed general objectives and the second covers three objectives, without however, providing clear deliverables, as is required by the Better Regulation Guidelines:

- clarifying and harmonising definitions of green projects and green bonds;
- harmonising outcomes, improving transparency and addressing conflicts of interest in the external review market.

These two objectives correspond to the two problem drivers. However, the objectives of the IA are altogether not clearly distinct, and, in the absence of operational objectives, neither measurable nor specific (for instance, which costs should be reduced, which specificities of sovereigns addressed?). Hence, the S.M.A.R.T criteria of the Better Regulation Guidelines, according to which objectives should be specific, measurable, achievable, relevant and time bound, have not been met.

Range of options considered

Before screening the policy options to achieve the objectives, the IA describes the characteristics of the baseline scenario and the main elements of the TEG report for an EU-GBS, refers to some stakeholder views on the latter and considers some benefits and risks in transitional sectors, which had not been analysed before, but are covered in the EU taxonomy (IA, pp. 25-28 and Annex 8, 14). Against this backdrop, the IA structures seven options around three key policy dimensions (IA, p. 24, preferred options are in grey):

1. **Scope of application for (non-sovereign)** green bond issuers and core requirements of the EU GBS (two options)
   - 1) Voluntary use of the green bond standard for issuers in the EU
   - 2) Mandatory use of the green bond standard for issuers, with an unspecified transitional period (grandfathering of existing bonds)

2. **Regulatory treatment of external reviewers of the EU GBS-aligned bonds** (two options)
   - 1) Registration and limited oversight and requirements (by ESMA)
   - 2) Authorisation and supervision with more stringent requirements (by ESMA)
3. **The extent of flexibility for sovereign users of the EU GBS** (three options)
   1) Flexibility linked to the EU Taxonomy Regulation
   2) Flexibility regarding other requirements, but not the EU taxonomy
   3) Flexibility regarding other requirements and the EU taxonomy

The presentation of the options under each dimension comes in one part with the comparative assessment of their impacts, where details of some options, for instance, the difference between limited and stringent oversight requirements, become clearer (see next section). However, some aspects could have been specified in the options' presentation, for instance, regarding the review (pre-and post-issuance) or regarding the supervisory competences of the national competent authorities on the one side, and ESMA on the other. The **range of options** appears limited – with two for the green bond and the external reviewers' market respectively and three relating to sovereigns as users of the new bond standard (in addition to the baseline, which is not listed in this context). Some options describe different degrees of one option. One reason for this is that, as noted above, the IA does not cover the whole concept of green bonds but only provisions that would complement the suggestions of the TEG, with the aim to improve current practices deemed acceptable to all. The IA provides detailed justification as to why seven options were discarded at an early stage, namely: 1) Non-legislative option (Commission communication); 2) Developing other standards such as social and sustainability bonds; 3) Tasking the national competent authorities with external review management; 4) Flexibility for corporate issuers regarding the EU taxonomy; 5) Mandatory standard for sovereign issuers; 6) Banning the refinancing of existing green assets and expenditure by the new EU GBS; and 7) Options deviating from grandfathering, implying loss of green status before the bond matures in case of a change of the EU taxonomy (IA, pp. 28, 33, 45; details in Annex 13).

### Assessment of impacts

After the short description of the retained options under each dimension, their impacts are compared – to each other, not to the baseline – preceded by short overviews of the 'pros' and 'cons' of each option and followed by a 'comparison table' measuring their effects (by '+', '0' and '-', IA, pp. 30-31, 38, 44-45; these tables are not numbered). The assessment is mainly qualitative, complemented by some useful quantified estimates of the costs for external reviewers and the supervisory body (ESMA) under the second policy dimension, and for the preferred option (for the latter, the IA provides a partial cost-effectiveness analysis, this time compared to the baseline, IA, pp. 50-53 and Annex 3).

The IA does not structure the impacts according to economic, social and environmental impacts, but according to the affected stakeholder groups: issuers (smaller and larger entities, depending on the option), investors and external reviewers; the potential impacts on the EU budget are considered under policy dimension 2 (IA, pp. 28-38). Under policy dimension 3, the IA distinguishes between impacts on sovereigns and corporates (IA, pp. 38-45). While the assessment of the individual options is overall logical and quite thorough, the multitude of issues touched upon, separately and with diverging references, does not facilitate a clear overview. The concluding 'comparison tables' classify the impacts according to six objectives that are 'relevant for the green bond market' while slightly varying for each of the three dimensions. These objectives are not explained, but are a mix of some of the IA's general and specific objectives and other categories: '1) harmonising outcomes, improving transparency and addressing conflicts of interest in the external review market; 2) reduce costs for external reviewers; 3) efficiency (cost-effectiveness); 4) impact on SMEs; 5) other economic, social and fundamental rights impacts; 6) coherence with EU policy objectives'. However, for the preferred options, 'alignment' is presented in relation to eight of the nine general objectives of the IA (see section on objectives above), with only the last one – 'including some flexibility for sovereign issuers' – missing (IA, p. 48). To increase accessibility, one common reference framework for the effects of all options would have been preferable. The options are not explicitly checked against the baseline in terms of effectiveness, efficiency and coherence as required by the Better Regulation Guidelines.
Notwithstanding these weaknesses, the IA weights the advantages and disadvantages of each option in an overall convincing manner, concluding that a voluntary use of the EU GBS with registration of external reviewers and limited supervision by ESMA would be the most efficient solution to improve harmonisation of definitions and facilitate the uptake of the new EU GBS standard, while allowing existing green bonds to keep their status as green. This is expected to also improve transparency and accountability in the review market, without adding too many costs that could be passed on to issuers and disrupt the still rather small market (IA, pp. 46-48). For sovereign issuers, the IA argues that flexibility should be limited to requirements such as reporting, external review and refinancing, but that it should not include the EU taxonomy (contrary to the suggestion in the TEG report). The IA argues that full or partial deviation from the EU taxonomy alignment, for instance, in a ‘flexibility pocket’ approach, would risk creating additional complexity and uncertainty or make sovereign green bonds less credible than corporate green bonds (IA, pp. 40-41, 44, 47).

The IA provides estimates of the one-off and recurrent costs for businesses (reviewers) under the preferred options over a hypothetical four-year period (average yearly total costs of between €53 375 and €131 250 per external reviewer, IA, p. 81). No costs are expected for consumers, while other indirect costs could not be quantified, for example, for legal advice and for dealing with potential complaint procedures. In the context of taxonomy-aligned expenditure and revenues, the IA points out that other existing EU disclosure requirements (under the Sustainable Finance Disclosures Regulation and the Non-Financial Reporting Directive) would alleviate some costs under the preferred option (IA, p. 51). In the same vein, the IA follows the TEG assumption that ESMA is expected to incur limited additional costs for registration and light supervision, as the number of external reviewers to be registered would remain relatively small, even if the green bond market were to keep growing strongly (IA, p. 35, 80). Benefits are not quantified in the text, but the summary table of the costs and benefits in Annex 3 features the expected quantified benefits (cost savings) of the preferred options of between €1.75 million and €3.5 million per year, stressing that total benefits depend ‘strongly’ on the number of bond issuances under the new standard and assuming a ‘duplication rate of 10-20%’ of green bonds issuances and ‘average external review costs of €40 000’ (IA, pp. 79). Other anticipated advantages (‘pros’) of a common and clear definition of green bonds include i) a reduced risk of greenwashing; ii) increased transparency, accountability, certainty and comparability of the bonds for investors; iii) an increase in high-quality green investments owing to ‘behavioural changes of companies to be more sustainable’ (IA, pp. 38, 79). Thus, the IA expects positive environmental and social (or societal) implications but does not explore these impact categories in depth, even though they would have deserved more substantiation (IA, pp. 31, 38, 45). The IA sees the ‘fundamental freedoms’ of the internal market respected in the preferred option, thanks to their enabling freer investment flows and the taxonomy-alignment, which includes rights set out in the eight fundamental conventions identified in the ILO’s Declaration on Fundamental Rights and Principles at Work, without providing further details (IA, pp. 19, 31, 107, 144, 168). Potential effects on (non-specified) third countries are mentioned in the case of a mandatory EU GBS (‘strong risk of issuance and trading moving to markets in third countries’, IA, p. 30). The IA suggests facilitating registration and supervision of reviewers from third countries by ‘mechanisms such as recognition or endorsement’ (similar to other existing EU legislation in the area, IA, pp. 32-33,132-133). Regional impacts, inside or outside the EU, are not assessed.

SMEs / Competitiveness

The IA consistently considers avoiding situations that might burden SMEs with disproportionate requirements, particularly in relation to reporting and external review, taking into account stakeholder opinions (IA, p. 26, 29, 32, 38, 45, 62-63). The quantified cost estimates of the IA relate to businesses (see above) and determine the selection of the less costly and burdensome options as the preferred options, without conducting a formal specific analysis (i.e. SME test). Positive effects on the competitiveness of EU companies are expected to be generated by the level playing field the new standard should establish (IA, pp. 19-20, 32, 132).
Simplification and other regulatory implications

The IA stresses the interlinkage of the initiative with the EU taxonomy and other existing EU legislation in the effort to ensure coherence in this field (IA, pp. 8-10, 31, 38). This influences the decision to reject flexibility for sovereign issuers of EU GBS from the taxonomy-alignment (expected to entail complications) as a way to secure a coherent solution, instead of creating an exception only for sovereign EU GBS issuance (the IA points to the Commission's ongoing assessment ‘how to give more space within the taxonomy... for transition or other activities in line with the taxonomy's objectives.’, IA, p. 48). Simplification of the currently uncertain use of green bonds is one objective of the initiative, which aims to find the right balance between establishing common rules and keeping them as proportionate and transparent as possible (see discussion of stakeholder views on reporting, namely the criticism of allocation reports by some stakeholders – IA, pp. 63-64, 78, 141).

Monitoring and evaluation

As indicated above, the objectives of the initiative have not been defined in a sufficiently distinct way, which could make evaluating or measuring the effects of the initiative a challenging task. Nonetheless, the eight output indicators presented in the IA seem pertinent; they include the annual number and pricing of EU GBS issued in relation to other green bonds, the number of registered reviewers, and data on regulatory fees (IA, p. 54). These indicators have been incorporated in the proposal. The collection of data appears to involve mainly ESMA (except for data on potential complaints and supervision including by the national competent authorities). The IA points out that the Commission should carry out an evaluation after five years of the regulation's adoption at the earliest.

Stakeholder consultation

As of April 2020, the Commission ran a 16-week open public consultation on the renewed sustainable finance strategy, which contained several questions on standards for financial products and on the EU GBS (IA, p. 58). Particularly relevant for the IA seem to have been an online open targeted consultation on the EU GBS, launched on 12 June 2020 and also open for 16 weeks, and in-depth interviews with 11 (unspecified) selected stakeholders in May and June 2020. The former received 167 contributions, including detailed position papers. In addition, a targeted questionnaire on sovereign green bond issuance was sent to the Member States in December 2020; 17 replied. The IA’s Annexes 2, 10.3 and 16 provide summaries of the consultations, with a breakdown of the relevant information, while the main text refers to them occasionally and in more general terms. It highlights clear support for the preferred options from a majority of stakeholders, except for the question of flexibility for sovereign issuers, where opinions were found to be ‘evenly divided’ (IA, pp. 39-40, 44, 47).

Supporting data and analytical methods used

The IA is based on solid internal and external research, including specific advice from ESMA regarding the registration and supervision regime, and a thorough stakeholder consultation (IA, pp. 11, 31, 58). It is transparent about limitations caused by the scarcity of relevant data (owing to the current fragmented market practices and only sporadic reporting) and regarding the assumptions underlying the analysis. In addition to numerous academic studies, several JRC working papers on green bonds underpin the IA in general and the cost estimates in particular (IA, pp. 6, 58-59). The annexes to the IA provide additional information on different technical aspects, some of which would have been useful in the main text, especially for non-specialist policy-makers (for example, regarding i) the legal scope that could potentially be derived from the EU taxonomy-alignment; ii) the ‘greenness’ of a company's revenue; iii) or the current external review procedures (Annexes 8, 9, 10).

The mostly qualitative analysis of potential impacts is complemented by a partial cost-effectiveness analysis of the preferred options compared to the baseline (IA, pp. 49-53). The IA could have gained in clarity and accessibility through the use of a more consistent intervention logic – clearly linking
the problems, objectives and options – and the use of one consistent set of specific objectives for the assessment of the options.

Follow-up to the opinion of the Commission Regulatory Scrutiny Board

The RSB issued a positive opinion with reservations on 19 February 2021, criticising, inter alia, the 'insufficient' problem- and options' definitions and the lack of explanation of the method employed by the IA. The IA features a list of points modified in the final IA, but does not say where the corrections were made (IA, p. 57). The RSB’s comments appear to have been mostly addressed, at least partially. The final IA explains the mostly qualitative approach of the IA and the reasons for discarding a number of options; furthermore, the problem definition seems improved. However, some issues regarding the consistency of the intervention logic remain, and information on specific challenges for 'brown sectors', which the RSB had requested, is limited. Notably, the RSB did not comment on the IA’s unspecific definition of objectives (but did require an explanation of ‘how...to measure the success of this initiative.’).

Coherence between the Commission's legislative proposal and IA

The proposal follows the preferred options of the IA. In addition, it covers all elements and details of the proposed EU GBS, including those not assessed in the IA (relating to the current market practices as taken over in the TEG suggestions and details of the supervision regime, including 'administrative sanctions and other administrative measures'; penalties; and the competences of the national competent authorities and ESMA). The monitoring data that ESMA is proposed to list publicly includes different categories of third-country reviewers, which are missing in the IA's indicator list. The proposal suggests a transitional period of 30 months after the entry into force of the regulation (allowing for grandfathering as suggested by the IA).

The IA assesses elements to be added to the 2019 report of the Technical Expert Group on sustainable finance (TEG) on a European green bond standard (EU GBS) for the legislative proposal establishing this standard. The range of options is therefore limited to these additional aspects and does not cover the entire set of rules for green bonds deemed accepted by all as featured in the TEG report. The IA is based on reliable internal and external research, international data and several stakeholder consultations. While the definition of the objectives of the initiative could have been more specific, the problem analysis and the assessment of options are overall logical and thorough, even if their structure could have been more straightforward. Some valuable information – and explanation – featured in the annexes could have made the main text of the IA more accessible, especially relating to the technical aspects and current market practices. Despite some weaknesses, the IA makes a convincing case for a voluntary EU-GBS, with some flexibility for sovereigns, taking into account their institutional specificities, but respecting the screening criteria of the EU taxonomy (deviating in this respect from the TEG suggestion).

ENDNOTES

1 Other EU such steps are the adopted Non-Financial Reporting directive, the Sustainable Finance Disclosure Regulation and the new Ecolabel for financial products (IA, pp. 9-10). See S. Spinaci, Green and sustainable finance, European Parliament, EPRS, 2021.

2 It requires that any EU green bond standard (EU GBS) issued by corporate issuers comply with its definition of environmental sustainability (sovereign issuers benefit from some flexibility). Activities must contribute to at least one of six objectives and do no significant harm to any of the other objectives: 1) climate change mitigation; 2) climate change adaptation; 3) sustainable use and protection of water and marine resources; 4) transition to a circular economy; 5) pollution prevention and control; and 6) protection and restoration of biodiversity and ecosystems. The EU GBS should also comply with the minimum international social standards and technical screening criteria of the Commission.
According to the IA, this is to avoid ‘needlessly disrupting current practises in both the green bond and the review market and was favoured by a ‘large majority’ of stakeholders, even though ‘some respondents’ were worried about the burden for SMEs (IA, p. 26). Since the EU taxonomy is very recent, data on implementation is very rare.

The IA cites four categories of reviewers in the current market: credit rating agencies, non-financial rating agencies and sustainability consultancies, big-four audit firms and global technical inspection and certification bodies (IA, p. 81).

The IA notes that in the absence of a legal framework and independence requirements, some providers are both evaluating companies and offering paid advisory services (IA, p. 17). This risk is reduced in the case of sovereign issuers, as they mostly use state auditors instead of external reviewers.

The IA assumes that companies in the EU have taxonomy-aligned assets of below 5 % on their balance sheets (IA, p. 49).

They include energy-intensive, not low-carbon activities, such as steel, aluminium or chemicals manufacturing (IA, p. 49).

Ten EU Member States have issued sovereign green or sustainability bonds: Belgium, the Netherlands, Ireland, Germany, Sweden, Lithuania, Luxembourg, Hungary, France and Poland (see Annex 10 of the IA).

As recommended by the Task Force on Subsidiarity, Proportionality and ‘Doing less more efficiently’ in 2018.

The review clause of the EU Taxonomy Regulation includes reflections on the extension of the scope to ‘brown’ economic activities that harm environmental sustainability.

The IA explains that the TEG report suggestion of equal full application of the EU taxonomy to private issuers does not apply to sovereign issuers, leaving room for deviations (IA, pp. 39, 136).

The European Securities and Markets Authority.

The IA indicates that depending on the number of external reviewers and the growth of the market, a more stringent regime could become necessary in the future (IA, p. 47).

It would allow sovereign issuers to include a certain amount of expenditure as proceeds in their EU GBS that has a positive environmental impact, but is not taxonomy aligned (IA, pp. 40-41, 44, 47, 136-137).

Cost calculations for a more stringent supervisory regime (option 2 under policy dimension 2) are based on the existing Credit Rating Agency Regulation, which implies an application fee and ongoing supervisory fees depending on size and turnover (IA, pp. 35-36). The IA explains that, contrary to credit rating agencies’ broader impact on financial instruments, external reviewers ‘operate in a niche market for green bonds’ and have limited impact on the final price of the bond, which is why such high compliance costs would be disproportionate.

For the more stringent supervisory regime, ESMA would be expected to incur €1.1 million additional costs in year 1, and €850 000 as of year 2 (IA, p. 37).

Annex 2 of the IA features the relevant questions and answers of the open public consultation, as well as the questions and answers of the targeted consultation; Annexes 9 and 16 include summaries of the responses on sovereign green bonds and on social bonds.

Drafts of Commission IAs are not publicly available.

On the relevance of the ‘brown’ sectors for achieving the goals of the Paris Agreement, see, for example, Mondrian Global Green Bond Fund.

This briefing, prepared for the ECON committee, analyses whether the principal criteria laid down in the Commission’s own Better Regulation Guidelines, as well as additional factors identified by the Parliament in its Impact Assessment Handbook, appear to be met by the IA. It does not attempt to deal with the substance of the proposal.

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