

European green bonds

A standard for Europe, open to the world

OVERVIEW

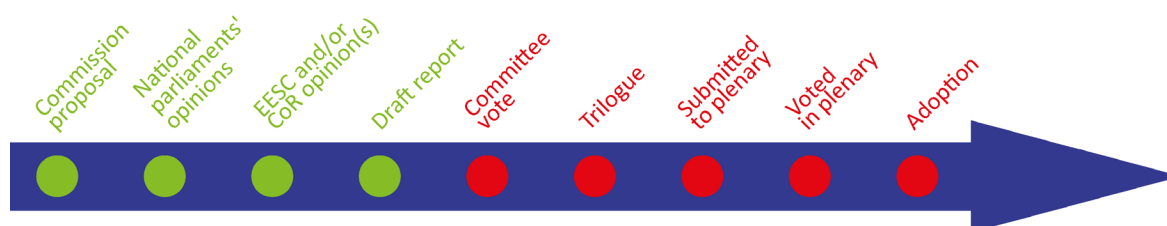
Green bonds are committed to financing or re-financing investments, projects, expenditure or assets helping to address climate and environmental issues. Both governments and companies use them to finance the transition to a more sustainable and low-carbon economy.

Since the EIB inaugurated the green bond market in 2007 with its Climate Awareness Bond, the market has grown very fast, but it still represents only about 3 to 3.5 % of overall bond issuance. The green bond market needs to grow more quickly to achieve the targets in the Paris Agreement.

The Commission's proposal aims to establish an official EU standard for green bonds aligned with the EU taxonomy for sustainable activities, based on a registration system and supervisory framework for external reviewers of European green bonds.

The proposal is currently being examined by the co-legislators. Within the European Parliament, the file has been assigned to the ECON committee. In the Council, the working party on financial services is meeting to discuss the dossier.

Proposal for a Regulation of the European Parliament and of the Council on European green bonds		
<i>Committee responsible:</i>	Economic and Monetary Affairs (ECON)	COM(2021) 391 6.7.2021
<i>Rapporteur:</i>	Paul Tang (S&D, The Netherlands)	2021/0191(COD)
<i>Shadow rapporteurs:</i>	Christophe Hansen (EPP, Luxembourg) Gilles Boyer (Renew, France) Bas Eickhout (Greens/EFA, The Netherlands) Gunnar Beck (ID, Germany) Andżelika Anna Możdżanowska (ECR, Poland) José Gusmão (The Left, Portugal)	Ordinary legislative procedure (COD) (Parliament and Council on equal footing – formerly 'co-decision')
<i>Next steps expected:</i>	Consideration of draft report in committee	



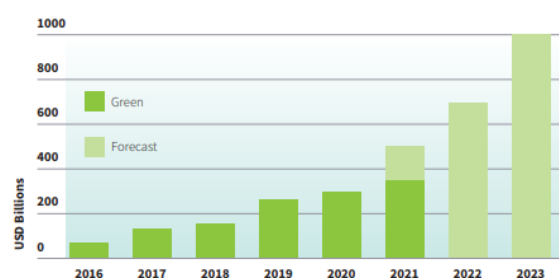
Introduction

The EU's commitment to the objectives of the Paris Agreement, and the ambitious European Green Deal, requires significant investment.¹ Green bonds – fixed-income securities designed specifically to support climate and environmental projects – are an important instrument of [green finance](#). However, while the green bond market is growing rapidly, it is younger and quite small compared to the overall bond market. Green bonds are one of the main instruments regulators and markets are considering to green the economy and the financial sector. Reaching their full potential, the Commission claims, requires a clear definition of what constitutes 'green', and better harmonisation of practices among external reviewers of green bonds; standards and labels are possible solutions. Establishing a green bond standard goes in this direction, with the aim of making it easier for investors and companies to identify sustainable investments, and ensuring credibility. On 6 July 2021, the Commission presented its [proposal](#) for a regulation of the European Parliament and of the Council on European green bonds. This legislative proposal is known as the EU green bond standard (EU GBS). The proposal is based on the [EU taxonomy](#) for sustainable activities, and complements a series of other measures included in the [action plan on sustainable finance](#) (2018) and, more recently, in the [new strategy on sustainable finance](#) (2021).

Context

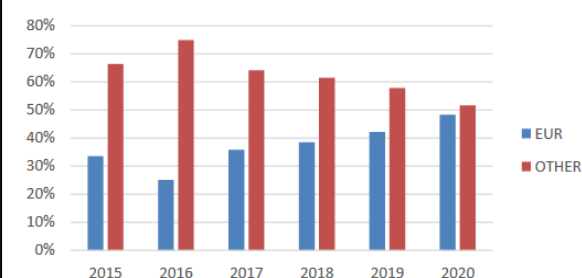
Green bonds are becoming more and more popular. The green bond market, both globally and at EU level, grew by an average of 50 % per year in the period 2015-2020.² Nevertheless, it represented only 3 to 3.5% of overall bond issuance in 2020. Even though forecasts predict it will reach US\$1 trillion of yearly global issuance in 2023 (see Figure 1), there is a need for more rapid growth of a high-quality green bond market to achieve the targets in the Paris Agreement.

Figure 1 - Green bonds issued by year (globally)



Source: [Climate Bond Initiative](#)

Figure 2 - Share of global green bonds issued in €



Source: [Climate Bond Initiative](#) (2021).

The EU is a global leader in green bonds, with 48 % of global issuances in 2020 being denominated in euros (see Figure 2), and 51 % of the global volume of green bonds being issued in the EU. In terms of volume, in 2020 the US was the top country of issuance, followed by Germany, France, China and the Netherlands; Sweden and Spain were also among the top 10 countries worldwide.³ Europe has pioneered the green bond market, thanks to the world's first green bond issued by the EIB in 2007.

European Investment Bank: The green bond pioneer

In 2007, the EIB issued the world's first green bond, branded as a [Climate Awareness Bond](#) (CAB). Today, the EIB is the largest supranational issuer and is spearheading application of the EU taxonomy and EU GBS, championing EU standards globally. In its [Climate Bank Roadmap 2021-2025](#), the EIB committed to gradually aligning CABs and [Sustainability Awareness Bonds](#) (SABs) with the proposed EU GBS. It was the first issuer to do so, describing the transition to the new EU regulatory framework in its [2020 CAB Framework](#) and [2020 SAB Framework](#). The EIB has helped to develop the EU taxonomy and EU GBS in the Commission working groups, and published a seminal [White Paper on the Need for a Common Language in Green Finance](#) in 2017.

Existing situation

There are obstacles to developing the green bond market, problems for issuers and investors, and issues in the external review market. Possible consequences are future market disruption from greenwashing, a lack of supply of green bonds, and limited impact.

The Commission identified three main barriers to developing the green bond market: (i) lack of agreement on a common definition of green projects and green bonds; (ii) often complex review procedures for green bonds; and (iii) lack of investable projects and assets. For market operators, the Commission identified problems both for investors (costly/difficult to identify high-quality green bonds) and issuers (additional costs of issuing a green bond due to market fragmentation, uncertainty around green assets, and potential reputational risks).

For the external review market, the Commission identified possible issues in its heterogeneity and lack of transparency, and possible conflicts of interest. All these issues could lead to consequences such as: (i) potential future market disruption from greenwashing;⁴ (ii) not enough high-quality green bonds being issued compared to market demand; and (iii) the risk that not enough investment will be channelled towards projects with a substantial impact. Considering the expected growth of the green bond market, these vulnerabilities are also likely to grow and may increase the risk of high-impact/visible greenwashing incidents creating serious reputational problems.

Comparative elements

Two market standards have emerged;⁵ the Green Bond Principles of the International Capital Market Association, and the Climate Bond Standard of the Climate Bonds Initiative. The first dominates the market, due also to less strict requirements than the latter.

The dominant market standard is the [Green Bond Principles](#) (GBPs). This voluntary standard, initially based on best practice guidelines established in 2014 by a consortium of investment banks,⁶ has since been developed and monitored by an independent secretariat hosted by the [International Capital Market Association](#) (ICMA). The guidelines were updated in 2018 and June 2021, and they are the de facto global standard. The Next Generation EU green bonds are also aligned with the GBPs.⁷ While the standard defines a clear process for project selection and allocation of funds, it lacks a clear definition of green economic activities and only recommends a third-party external review. These two elements are the most important differences with the EU GBS.

The [Climate Bond Standard](#) developed by the [Climate Bonds Initiative](#) (CBI) has stricter requirements, and therefore has fewer users. On top of the basic requirements of the ICMA standard, the CBI standard also includes a taxonomy with screening criteria to define green economic activities, and requires green bonds to be certified by approved external reviewers. In 2020, about a quarter of green bonds worldwide were issued under the CBI standard.

In 2015, the People's Bank of China (PBOC) issued the first [guidelines](#) defining criteria and categories for green bond projects, and a taxonomy in the form of a [Green Bond Endorsed Project Catalogue](#). In April 2021, the PBOC issued a [new catalogue of projects that are eligible for green bond issuance](#), which came into effect on 1 July 2021.

Parliament's starting position

In its resolution on sustainable finance (2018), the Parliament underlined the need to regulate green bonds, and it reiterated the need for an EU green bond standard in its resolution on the Sustainable Europe Investment Plan (2020).

On 29 May 2018, the Parliament, in its [resolution on sustainable finance](#) (point 18 of the resolution) noted that green bonds are insufficiently regulated and that the EU lacks a unified standard for green bonds, which should build on a sustainable taxonomy. It also noted that green bonds should be verified and supervised by public authorities, and should include periodic reporting on the

environmental impact of the underlying assets. Parliament underlined that such green bonds should include reverse environmental impact and support a decrease in the use of fossil fuel assets, and that green bonds should exclude certain sectors – especially in relation to activities that have a significant negative impact on climate – and not breach core social and human rights standards.

Parliament called on the Commission to regularly assess the impact, effectiveness and supervision of green bonds. It also recommended (point 36) that the Commission consider mechanisms to enable SMEs to bundle projects, thereby allowing them to access the green bond market, and noted how digitalisation and green FinTech could serve this purpose.

On 13 November 2020, in its [resolution on the Sustainable Europe Investment Plan - How to finance the Green Deal](#), Parliament underlined the need for an EU GBS (point 59), and supported the Commission's pledge to explore enabling frameworks such as green bond standards to promote sustainable public investment (point 70). Parliament deemed that a significant share of the EU bonds to be issued in the context of the [Recovery plan for Europe](#) should be based on the EU GBS (point 60).

European Council starting position

On 11 December 2020, in the [European Council conclusions](#) (point 16), EU leaders highlighted the importance of promoting the development of common, global standards for green finance. The European Council also invited the Commission to put forward a legislative proposal for an EU GBS.

Preparation of the proposal

A technical expert group provided recommendations to the Commission, while a targeted consultation collected views from stakeholders. An impact assessment accompanied the Commission's proposal and EPRS published an initial appraisal of the impact assessment.

In July 2018 – following the report of the [High-Level Expert Group on sustainable finance](#) (HLEG) and the Commission's [action plan on sustainable finance](#) – the Commission set up a technical expert group on sustainable finance (TEG) to help it develop the building blocks of the future regulations on sustainable finance, including an EU GBS. In March 2019, the TEG published an [interim report](#); more than 100 organisations provided feedback on this preliminary work, and over 80 % of the respondents supported creating a voluntary EU GBS. In June 2019, the TEG gave recommendations in its [final report on the EU green bond standard](#), and in March 2020 the TEG published a [usability guide for the EU green bond standard](#).

As part of the public consultation on the renewed sustainable finance strategy, the Commission launched a [targeted consultation](#) between 12 June and 2 October 2020 on establishing an EU GBS. The Commission received 167 responses from a wide range of stakeholders, including business organisations, consumer organisations, NGOs and public authorities.

The Commission also carried out structured in-depth interviews with 11 selected stakeholders in May and June 2020; in December 2020, it carried out a short consultation of national debt management officers through the green bonds working group of the Council's [Economic and Financial Committee](#) (EFC) subgroup on European sovereign debt markets (ESDM). A questionnaire was also circulated to the [Member States Expert Group on sustainable finance](#) (MSEG), where the European green bonds initiative has been discussed since 2019. Furthermore, the Commission asked for opinions and advice from the [European Securities and Markets Authority](#) (ESMA), and the Commission's Joint Research Centre prepared reports and academic and working papers on green bonds.⁸

On 12 June 2020, with the launch of the targeted consultation, the Commission published an [inception impact assessment](#) identifying the main barriers to developing the green bond market, briefly presenting the objectives and policy options of the EU GBS, and offering a preliminary assessment of expected impacts.

On 6 July 2021, the Commission presented its proposal for a regulation accompanied by an [impact assessment](#) (IA) report,⁹ which analyses seven policy options in three key policy dimensions (scope of application, regulatory treatment of external reviewers, and the extent of flexibility for sovereign users of the EU GBS). Having weighted them in terms of advantages and disadvantages, the IA then selects three of these options: (i) voluntary use of the standard; (ii) registration and limited oversight and requirements (by ESMA); (iii) flexibility regarding other requirements, but not the taxonomy.

The European Parliamentary Research Service (EPRS) published an [initial appraisal](#) of the Commission's impact assessment in October 2021. The appraisal notes that the IA assesses elements to be added to the 2019 TEG report on a European GBS; the range of options is therefore limited to these additional aspects and does not cover the entire set of rules for green bonds. The appraisal concludes that, despite some weaknesses, the IA is based on reliable internal and external research, international data and several stakeholder consultations, and the selected options seem convincing.

The changes the proposal would bring

The legislative proposal aims to establish an official EU (voluntary) standard for green bonds aligned with the EU taxonomy for sustainable finance, based on a registration system and supervisory framework for external reviewers of European green bonds.

The proposed regulation would create a voluntary 'gold standard' for green bonds, the 'European green bond standard'. It would introduce uniform requirements for issuers of bonds that wish to call their bond a 'European green bond' (EuGB), and would establish a registration system and supervisory framework for external reviewers of European green bonds. Use of the standard would be open to all EU and non-EU issuers, including corporate issuers, sovereign issuers and financial institutions, with specific flexibility being provided for sovereign issuers.

The main requirement would be **alignment with the EU taxonomy**, as issuers should allocate 100 % of the proceeds of the bond to finance taxonomy-aligned economic activities, before maturity of the bond. The new standard would allow the funding of long-term projects (up to 10 years) for economic activities aligned with the EU taxonomy, and it would help issuers to finance their green transition. The proposal allows partial **grandfathering**,¹⁰ where, in case of a change in the EU taxonomy technical screening criteria (TSC) after bond issuance, issuers can make use of pre-existing criteria for 5 more years. In terms of **transparency**, the issuers would report firstly on their commitment to align with the standard – to be done annually on the allocation of proceeds – and finally on the aggregate environmental impact. These disclosures would undergo thorough pre-issuance and post-issuance reviews by external reviewers.

The proposal would establish a registration system and supervisory framework for external reviewers, managed by ESMA. **Registered external reviewers** would ensure compliance with the EU GBS Regulation, and particularly the alignment of the funded projects with the EU taxonomy. **ESMA's supervisory role** would allow it to investigate complaints, impose fines and, if necessary, withdraw registration.

There would be **some flexibility for sovereign issuers**: (1) public subsidy programmes and tax-relief programmes would be exempt from project-by-project assessment, and the external reviewer would need only to assess the alignment of a programme's terms and conditions with the EU taxonomy; (2) sovereign issuers would be able to use state auditors as external reviewers, and state auditors would be exempted from the registration system.

The proposal also contains an **international dimension**, which should help to promote the EU GBS. The adoption by the Commission of an equivalence decision for a third country would allow third-country external reviewers to offer their services. Until such a decision is adopted, a third-country external reviewer may provide its services after recognition from ESMA. Furthermore, a registered external reviewer located in the EU may apply to ESMA to endorse the services of a third-country external reviewer on an ongoing basis in the EU, provided that certain conditions are fulfilled.

Articles – analysis

Article 3 specifies that the designation EuGB shall only be used for bonds that comply with the requirements until their maturity.

Article 4 defines the use of proceeds of European green bonds. They should be exclusively allocated to: financing, where eligible; fixed assets (including those of households) that are not financial assets; capital expenditure (including that of households); operating expenditure incurred more recently than 3 years prior to the issuance of the bond; and financial assets as referred to in Article 5. Operating expenditure may relate to research and development, education and training, building renovation measures, and other direct expenditure necessary to ensure the continued and effective functioning of fixed tangible or intangible property assets. Sovereign issuers may allocate the proceeds to certain public expenditure programmes, such as funding or subsidy programmes and tax relief schemes.

Article 6 sets an important condition for using the proceeds of European green bonds. It requires that their use should relate to economic activities that meet the taxonomy requirements, or that they will meet these requirements within a defined period. In the latter case, a taxonomy alignment plan should describe the related actions and expenditure, and should not exceed 5 years from the bond's issuance, or 10 years if duly justified.

Article 7 specifies how the taxonomy requirements should apply. Bond issuers should refer to the delegated acts of the taxonomy regulation applicable at the time of issuing the bond. If the delegated acts are amended afterwards, the issuer should apply the amended requirements within 5 years of the entry into application of the new delegated acts ('partial grandfathering').

Article 15 contains provisions on applying for registration as an external reviewer, the requirements, and how ESMA should process the application and the subsequent registration.

Article 25 deals with cases of external reviewers outsourcing their assessment activities to third-party service providers. It sets out the limits, responsibilities, notification obligations and organisational measures with which external reviewers should comply.

Articles 31 to 35 address the provision of services by third-country external reviewers. ESMA can record them in the register of third-country external reviewers, provided that the Commission has adopted a decision on the equivalence of that third country's legal and supervisory arrangements for external reviewers. Subsequently, ESMA would establish cooperation agreements with the competent authorities of third countries, and would reserve the right to withdraw the registration of a third-country external reviewer under specific conditions.

Articles 36 to 45 define the power of national competent authorities to supervise bond issuers, to suspend an offer of European green bonds, and to carry out on-site inspections or investigations. National competent authorities should publish any decision imposing administrative sanctions or taking other administrative measures, and should send an annual report on them to ESMA.

Articles 46 to 59 define the power of ESMA to request information, to carry out general investigations and on-site inspections, and to take supervisory measures such as withdrawing the registration of an external reviewer or temporarily prohibiting their activities under this regulation.

Articles 62 to 64 introduce a transitional period of 30 months following the entry into force of the regulation. During the transitional period, any external reviewer (including third-country external reviewers) that intends to provide a service under this Regulation should notify ESMA and provide the information according to Article 15. After the transitional period, ESMA should examine whether external reviewers and the services provided during the transitional period comply with the regulation.

Advisory committees

On 8 December 2021, the European Economic and Social Committee (EESC) adopted a mandatory [opinion](#) on the legislative proposal. The EESC states that the EU GBS has the potential to deliver significant economic benefits for both issuers and investors, and it considers positively the alignment of such a standard with the EU taxonomy. However, the EESC recognises the challenge for issuers to comply with the standards in the EU taxonomy, which may lead to private issuers preferring alternative green bonds and less onerous certification processes. The EESC fears that proposed reporting and compliance procedures may also have a disproportionate financial impact on SMEs, and hence recommends a pragmatic approach in terms of the supervision and reporting requirements.

The EESC is of the opinion that access to EU capital markets and vice versa should be based on the alignment of taxonomies across jurisdictions in- and outside the EU; otherwise, the voluntary green bond standard is unlikely to become a standard for the global green bond market. The International Platform on Sustainable Finance (IPSF) should play a key role in providing this common ground. Finally, the EESC welcomes the requirement under the EU taxonomy for investments to do no significant harm (DNSH) and meet minimum safeguards, given the continued need to prioritise the green transformation alongside social protection and respect for human and workers' rights. It also proposes a dedicated monitoring committee to supervise the dynamics of the green bond market.

National parliaments

The proposal for a regulation was submitted to the national parliaments, with a [subsidiarity deadline](#) of 27 October 2021. None of the parliaments raised any subsidiarity or proportionality concerns.

Stakeholder views¹¹

There is broad support for the proposal, but also different views on the more controversial provisions: voluntary standard (vs mandatory), 100 % taxonomy alignment (vs more flexibility), partial grandfathering (vs full or no grandfathering). Various comments concern the necessity to include activities and sectors currently not covered by the EU taxonomy, and to facilitate access to the instrument for transitional activities and for SMEs. Some suggest a sustainability standard including social and governance factors.

The [European Central Bank](#) (ECB), in its opinion¹² of 5 November 2021, suggests assessing and monitoring over time the attractiveness of the EU GBS compared to market standards and/or other jurisdictions' statutory green bond labels. The ECB stresses the relevance of the proposed regulation for the objectives and tasks of the ECB and the Eurosystem. It also considers necessary 'a clear commitment to making the standard mandatory for newly issued green bonds within a reasonable time period' (e.g. 3 to 5 years), and notes that 'a well-calibrated expansion of the taxonomy to transition financing would facilitate the progression to a mandatory standard'. Nevertheless, the ECB acknowledges the difficulties of setting a concrete time period for the standard to become mandatory, and is of the view that 'the design of a mandatory standard should be subject to an impact assessment, and appropriate fine-tuning of the framework should be carried out'.

The ECB welcomes the alignment of the proposed regulation with the EU taxonomy regulation, but is concerned whether it is sufficient that taxonomy alignment is to be achieved within 5 or, in specific circumstances, 10 years. The ECB is in favour of full grandfathering because it would help to have financial stability and certainty for bond issuers and investors, and consequently to facilitate the functioning and growth of the EuGB market.

In its analysis of the proposal, the [ICMA](#)¹³ recognises that many of the TEG's recommendations have been adopted, but points out some areas of concern. Firstly, the ICMA notes the proposal does not accommodate the TEG's recommendations to be flexible over requiring EU taxonomy alignment, where: (i) the taxonomy technical screening criteria may not be directly applicable due to the

innovative nature or complexity of the project, or to other legitimate factors; or (ii) the TSC have not yet been developed. That may negatively affect the uptake of the EU GBS, especially at international level. Secondly, the ICMA notes that the TEG's recommendation for full grandfathering has not been adopted, which may cause serious problems both for issuers and investors and a reluctance to invest in transitioning activities through EuGBs. Finally, it notes that the TEG's recommendation for a potential methodology to convert activities into projects has not been included in the draft regulation. On 5 January 2022, the ICMA published an [analysis](#) of the rapporteur's draft report.

In its position paper on the proposal, the [Federation of European Securities Exchanges](#) (FESE) recommends specific reliefs and incentives to foster the issuance of EuGBs by SMEs. FESE supports the inclusion of full grandfathering, and proposes to consider the inclusion of an EU guarantee for bonds requiring a long maturity period. FESE suggests also including some transitional elements and incentives for 'old' green bonds once the new EuGB-aligned bonds are issued on the market. Lastly, FESE stresses the importance of having a standard compatible with other taxonomies and international frameworks, so that those can be brought into alignment under the EU taxonomy.

In its position paper, the [European Banking Federation](#) (EBF) supports the proposal of a voluntary EU GBS, but calls for full grandfathering, as it would increase certainty and predictability for all stakeholders. In the EBF's opinion, five-year grandfathering would imply that the market value of outstanding EuGBs may decrease following the taxonomy TSC reviews, and such a risk may be priced into the bond from the beginning. In addition, the EBF invites the Commission to consider the difficulties in satisfying the taxonomy TSC and the DNSH principle, and asks for initial, temporary flexibility over full alignment with the taxonomy; this could facilitate initial uptake and consequently the future success of the standard. The EBF's view is that such flexibility must be the same for sovereign and corporate issuers to avoid two qualitatively different EuGBs being on the market.

In its position paper, [Insurance Europe](#) is also in favour of full grandfathering. It highlights the fact that, under the EU GBS, the EU taxonomy should be applied at project level, but that the EU taxonomy is based on criteria at activity level. Therefore, it proposes that issuers have some discretion as to how to apply the EU taxonomy at project level (e.g. by following existing market practices and relying on the TEG usability guide). Insurance Europe stresses the importance of allowing EuGBs to finance transitional projects as well, and the need to link the EU green bonds framework to the broader EU taxonomy that embeds transitional aspects.

In its position paper, [Accountancy Europe](#) supports a mandatory EU GBS, and recommends setting up a centralised European accreditation system for external assessment, building on existing national schemes and processes. It also suggests reporting on the actual environmental impact on a regular basis (i.e. annually) and proposes independent third-party assurance of the allocation and environmental reports. Finally, it considers that the EU GBS could, in future, cover several categories of bonds and also finance transitional economic activities.

In its response to the consultation on the EU GBS, [Better Finance](#) suggests that the Commission develop a sustainability bond standard that would include environmental, social and governance objectives. It says that the new standard should impede practices such as repackaging loans that banks already have in their portfolio into green/social bonds. With regard to 100 % alignment with the taxonomy, Better Finance thinks there should be a certain degree of flexibility for those companies that are not included in the taxonomy but that want to raise money for concrete, impactful green projects. On the other hand, Better Finance is against grandfathering and suggests tax incentives for a transitional period to stimulate the development of the market (e.g. tax-exempt bonds, direct subsidy bonds, tax credit bonds).

In its response to the consultation, [Finance Watch](#)¹⁴ supports a mandatory EU GBS, and advocates a specific proposal for an EU GBS prospectus. In its opinion, proceeds from EuGBs should only be used to finance new environmentally sustainable projects and activities, rather than re-finance existing ones. Finance Watch believes that grandfathering for the entire term to maturity is essential to provide stability and to develop the green bond market.

In its response to the consultation, [S&P Global](#) focuses on the need to define correctly the role of the external reviewer and any verification activity. The current market practice for green bond external reviews does not include compliance assessment; if this latter activity were to be included in the external reviewers' activity, S&P warns that the ability to provide external reviews on EU green bonds could be limited to a very small set of firms.

In its special report on the EU GBS, [Fitch Ratings](#) thinks that it is unlikely to become a global 'gold standard', mainly because it implies strict compliance with the EU taxonomy, and several jurisdictions have introduced taxonomies which are not aligned to the standards and criteria used in the EU. Moreover, international capital markets are already using other green bond frameworks issued by private and non-profit organisations. Fitch's suggestion is to allow more flexibility and to work for global taxonomy alignment. Fitch sees ECB asset purchases and repo mandates, and the introduction of a green asset ratio for banking, as factors that may drive the growth of the EU GBS.

Academic views

[Alexander Lehmann](#) (Bruegel) affirms that the EU GBS may well address greenwashing and, if adopted internationally, may contribute to the emergence of a new asset class in global capital markets. Lehmann identifies three necessary measures: firstly, the EU and other public sector issuers should adopt the EU GBS for their own financial market activities, including financing the Next Generation EU programme; secondly, EU regulators should work in coordination with other jurisdictions to make taxonomies compatible; thirdly, ESMA should quickly build up the skills and capacity needed to supervise reviewers of green bonds, paying special attention to reviewers from jurisdictions where standards may be lower.

Legislative process

The Commission presented the legislative proposal (COM(2021) 391) on 6 July 2021; it falls under the ordinary legislative procedure (2021/0191(COD)). In Parliament, the Committee on Economic and Monetary Affairs (ECON) is responsible for this file, and has appointed Paul Tang (S&D, The Netherlands) as rapporteur. The ECON committee held a first exchange of views on 26 October 2021. The BUDG and ENVI committees have been asked to give opinions (under Rule 56 of the Rules of Procedure) on the legislative proposal, and ENVI has appointed Bas Eickhout (Greens/EFA, The Netherlands) as rapporteur for an opinion.

On 30 November 2021, the rapporteur published his [draft report](#) on the Commission proposal, where he proposes amendments based on four overarching principles: 'First, money raised through European green bonds should be directed to activities and companies that fit in the sustainable economy ... Second, the benefit of using or investing in European green bonds should be clear to the market ... Third, the standard should be credible through a transparent and credible review process. Fourth, the standard should lead to a deep and liquid market for European green bonds.'¹⁵

The rapporteur proposes an obligation for EuGB issuers to develop transition plans to reach net zero by 2050. Issuers should also adhere to other entity-level sustainability requirements.¹⁶ They should comply with the DNSH principle and the minimum safeguards set out in Article 18 of the EU taxonomy regulation. The issuers should not be engaged in tax-avoidance practices through countries listed on the EU list of non-cooperative jurisdictions, and should factor in adverse impacts their investments may have on sustainability, including social factors such as inequality, social cohesion, social integration and labour relations. Furthermore, EuGBs should not fund fossil gas- or nuclear-powered energy plants, in line with current market practices on green bonds.

To avoid market fragmentation and highlight the benefits of using the EU GBS, the rapporteur proposes provisions to make it easier to compare the EU GBS with other sustainable bond issuances. He seeks the introduction of a standardised disclosure format for each issuance of a sustainable bond, whether they are EuGBs or other types of sustainable bonds; the disclosures of the latter should be verified through the same process of external reviewers as EuGBs. Harmonising and

standardising the disclosure format and verification process should put EuGBs and other types of sustainable bonds on a level playing field in terms of addressing and reducing the risk of greenwashing. The rapporteur also aims to reinforce the credibility of the review process. He suggests additional requirements to strengthen the independence of external reviewers and avoid possible conflicts of interest; these include reducing the ability of external reviewers to outsource vital aspects of the reviewing process, and giving ESMA a mandate to strengthen measures against conflicts of interest.

The final aim is to incentivise investment in and further issuance of EuGBs. The rapporteur proposes measures to stimulate a deep and liquid market for EuGBs, including obliging EU bodies and institutions to use the EU GBS for all their environmentally sustainable bonds. The standard should be easy to use and accessible to issuers, and therefore the rapporteur seeks to ensure that, in case of changes to the delegated acts under the EU taxonomy regulation, issuers do not have to re-allocate their bond proceeds. Lastly, the rapporteur asks the Commission to introduce a review mechanism to assess eventual bottlenecks and obstacles to the development of the EuGB market, to make the standard mandatory for all environmentally sustainable bonds, and to envisage revising the regulation alongside the extension of the EU taxonomy to incorporate social elements.

In the [Council](#), the Slovenian Presidency considered the EuGB proposal a priority, and organised a policy debate at the ECOFIN meeting in July 2021 to facilitate quick progress on this file. Under the Slovenian Presidency, the proposal was examined by the working party on financial services in seven informal videoconferences on 19 July, 3 September, 23 September, 19 October, 5 November, 23 November and 9 December 2021.

On 16 December 2021, a [progress report](#) set out what had been achieved during the Slovenian Presidency. According to the report, Member States agree that the use of the 'EuGB' designation should be voluntary, anchored in the EU taxonomy, and based on best market practices. The standard should encourage market participants to issue and invest in EuGBs, and include effective rules aimed at preventing greenwashing. The report also mentions that the EU GBS should take into account the specificities of sovereigns, where it is justified, and provide for a level playing-field for external reviewers of EuGBs, considering that the market for these external reviewers should be a cross-border one. According to the document, to ensure that issuers of EuGBs comply with the requirements for transparency and external review set out in the EuGB proposal, national competent authorities (NCAs) should have the necessary supervisory and investigatory powers.

The above orientations were the basis for the presentation of a Presidency compromise proposal on the entire EuGB text in the informal videoconference on 23 November. The compromise was subject to reservations mainly in the following areas: taxonomy alignment of the use of proceeds; grandfathering; state auditors; powers of ESMA versus NCAs; and the scope of supervision by NCAs.

A revised Presidency compromise proposal was presented in an informal videoconference on 9 December; the amendments to the initial compromise proposal were aimed at further balancing and clarifying the text. On that occasion, the Presidency presented a further possible option as regards the powers of ESMA and NCAs. The Slovenian Presidency recognised that further discussions and balancing are needed, and invited the incoming French Presidency and Member States to continue working on the EuGB proposal to reach agreement on a negotiating mandate.

EP SUPPORTING ANALYSIS

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ENDNOTES

¹ In the period 2021-2030, an estimated €336 billion of energy-related investment per annum is needed to reach the target of cutting carbon emissions by at least 55 % (source: [Commission proposal](#), page 1, Explanatory memorandum).

- ² See [Annex 5](#) of the Commission Impact Assessment, page 87, Table 18 'Annual data on green bond issuance'.
- ³ See [Sustainable debt global state of the market 2020](#), Climate Bonds Initiative, page 7.
- ⁴ The practice of financial products being marketed as 'green' or, more generally, 'sustainable', when in fact they do not meet basic environmental standards. Diverging classifications of economic activities that have varying scopes and are based on different criteria and metrics leave a lot of scope for greenwashing. The latter has a direct negative effect on the functioning of the internal market, as it undermines investor confidence in the market for sustainable investments.
- ⁵ More details on green bond standards are in Annex 7 of the [Impact Assessment Report](#) (page 99, 'Standards and definition of greens') accompanying the Commission proposal.
- ⁶ Bank of America Merrill Lynch, Citi, Cr dit Agricole Corporate and Investment Bank, JPMorgan Chase, BNP Paribas, Daiwa, Deutsche Bank, Goldman Sachs, HSBC, Mizuho Securities, Morgan Stanley, Rabobank and SEB.
- ⁷ While aligning as much as feasible with the upcoming EU GBS and EU taxonomy, the [Next Generation EU green bond framework](#) is based on the ICMA GBPs. Most Recovery and Resilience Plans (RRPs) were submitted in April or May 2021. Meanwhile, the Commission's legislative proposal for a voluntary EU GBS was adopted by the Commission in July 2021 and will only enter into force at a later stage, after adoption by the European Parliament and the Council. By then, the RRP's will be finalised and their implementation will have started. Given this discrepancy in timeframes, it was decided to adopt the ICMA GBPs.
- ⁸ [The pricing of green bonds: are financial institutions special?](#), Fatica, S., Panzica, R. and Rancan, M., JRC, May 2019. [Green bonds as a tool against climate change?](#), Fatica, S. and Panzica, R., JRC, September 2020.
- ⁹ [Executive summary of the impact assessment accompanying the proposal](#) (SWD/2021/182 final).
- ¹⁰ 'Grandfathering' is a provision in which an old rule continues to apply to some existing situations while a new rule will apply to all future cases.
- ¹¹ This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views on the proposal. Additional information can be found in related publications listed under 'EP supporting analysis'.
- ¹² On 14 October 2021, the ECB received a request from the European Parliament for an opinion on the Commission proposal. The ECB's competence to deliver an opinion is based on Articles 127(4) and 282(5) of the Treaty on the Functioning of the European Union, since the proposed regulation contains provisions falling within the ECB's fields of competence.
- ¹³ ICMA was a member of the [technical expert group on sustainable finance](#) and is a member of the [Platform on Sustainable Finance](#).
- ¹⁴ Finance Watch was a member of the [technical expert group on sustainable finance](#) and is a member of the [Platform on Sustainable Finance](#).
- ¹⁵ Citation from the [draft report](#), explanatory statement.
- ¹⁶ Issuers of EuGBs in the EU should respect sustainability requirements at 'entity' level (e.g. corporate/group level), and not only at the level of the activity/project specifically financed by the EuGB.

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