Eumedion response EU GBS consultation

Link to consultation document: https://ec.europa.eu/info/consultations/finance-2020-eu-green-bond-standard_en

TEG usability guide with updated proposed standard and GB Framework (March 2020): https://ec.europa.eu/info/files/200309-sustainable-finance-teg-green-bond-standard-usability-guide_en

Eumedion response and explanations provided below in **red**.

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EUROPEAN COMMISSION

DIRECTORATE-GENERAL FOR FINANCIAL STABILITY, FINANCIAL SERVICES AND CAPITAL MARKETS UNION

TARGETED CONSULTATION DOCUMENT

ESTABLISHMENT OF AN EU GREEN BOND STANDARD

INTRODUCTION

In March 2018, the European Commission published its Action Plan on Financing Sustainable Growth with the goal of embedding sustainability considerations at the heart of the financial sector. Specifically, it aims to:

(1) reorient capital flows towards sustainable investment to achieve more sustainable and inclusive growth;

(2) manage financial risks stemming from climate change, resource depletion, environmental degradation and social issues; and

(3) foster greater transparency and long-termism in financial and economic activity.

As part of the Action Plan, the Commission committed to developing standards and labels for green financial products and instruments, including an EU Green Bond Standard (EU GBS).

As a first step, the Commission's Technical Expert Group on sustainable finance (TEG) was tasked with preparing a report on an EU GBS.

The TEG published its first report in June 2019 with 10 recommendations for the establishment of an EU GBS based on current best market practices and feedback received from stakeholders. The TEG also recommended the creation of an official voluntary EU GBS building on the new EU Taxonomy, which provides a classification system for sustainable economic activities. The TEG provided further usability guidance in March 2020, which includes an updated proposed standard (see the annexes).

The Commission is now considering how to take the recommendations of the TEG forward, including in a possible legislative manner. This consultation is designed to gather further input of a technical nature from relevant stakeholders in the green bond market, in particular issuers, investors and related service providers.

The questions assume that the reader has read the reports by the TEG on the EU GBS and is familiar with the proposed content of the EU GBS, including its link to the EU Taxonomy. If this is not the case, the report on the EU GBS, the TEG usability guide on the EU GBS and the final report on the EU Taxonomy should be read first. A brief summary of the EU GBS as proposed by the TEG is provided at the beginning of the consultation.

The European Green Deal

This consultation builds upon the European Green Deal, which significantly increases the EU’s climate action and environmental policy ambitions. To complement the Green Deal, the Commission also presented the European Green Deal Investment Plan, which seeks to mobilise at least €1 trillion in sustainable investments over the next decade. As part of the Green Deal and its investment plan, the Commission reaffirmed its commitment to establish an EU GBS. The Commission also committed to developing a renewed sustainable finance strategy, which is the subject of a separate public consultation currently open for submissions until 15 July 2020. That consultation contains several questions on green bonds and respondents are requested to also participate in it.

COVID19 & Social Bonds

Social bonds have emerged as a key instrument for mobilising private capital for social objectives. Social bonds are similar to green bonds, except that the proceeds are used exclusively for social causes, instead of energy transition and environmental goals.

The ongoing COVID-19 outbreak shows the critical need to strengthen the sustainability and resilience of our societies and the importance of integrating social issues and objectives into the broader functioning of our economies. Financial markets have so far responded to the challenge with increased issuance of social bonds responding to the impact of COVID19.

These social bonds often follow established market-based Social Bond Principles. The Commission is seeking the input of stakeholders on the lessons learned from this new development, including whether the Commission can play an even greater supportive role in building resilience to address future potential crises.

CONSULTATION QUESTIONS

YOUR ROLE ON THE GREEN BOND MARKET

What type of organisation are you, in relation to the green bond market?

~~a. Issuer~~

b. Investor

~~c. Verifier / external reviewer / 3rd party opinion provider~~

~~d. Intermediary~~

~~e. Market-infrastructure~~

~~f. NGO~~

~~g. Public Authority~~

~~h. Trade or Industry Association~~

~~i. Other (if so, please specify) [BOX]~~

I. QUESTIONS ON THE EU GREEN BOND STANDARD

About the TEG proposed EU GBS

The EU GBS aims to address several barriers identified in the current market. Firstly, by reducing uncertainty about what constitutes green investment by linking it to the EU taxonomy. Secondly, by standardising costly and complex verification and reporting processes, and thirdly, by establishing an official standard to which potential incentives could be linked.

The EU GBS as proposed by the TEG is intended to finance both physical and financial assets and includes the use of the latter as security (i.e. as a covered bonds or asset-backed securities).

The key components of such a standard – as recommended by the TEG and building on best market practices such as the Green Bond Principles and the Climate Bonds Initiative labelling scheme – should be:

(1) alignment of the use of the proceeds from the bond with the EU Taxonomy;

(2) the publication of a Green Bond Framework;

(3) mandatory reporting on the use of proceeds (allocation reports) and on environmental impact (impact report); and

(4) verification of compliance with the Green Bond Framework and the final allocation report by an external registered/authorised verifier.

Questions on the potential need for an official / formalised EU GBS

1) In your view, which of the problems mentioned below is negatively affecting the EU green bond market today? How important are they? Please select and rate the extent of the impact on a scale of 1 to 5 (1 no impact, 5 very strong impact). Multiple answers are possible.

a. Absence of economic benefits associated with the issuance of green bonds: **5**

b. Lack of available green projects and assets: **4**

c. Uncertainty regarding green definitions: **4**

d. Complexity of the external review procedure(s): **do not know**

e. Cost of the external review procedure(s): **do not know**

f. Costly and burdensome reporting processes: **do not know**

g. Uncertainty with regards to the eligibility of certain types of assets (physical and financial) and expenditure (capital and operating expenditure): **4**

h. Lack of clarity concerning the practice for the tracking of proceeds: **4**

i. Lack of transparency and comparability in the market for green bonds: **4**

j. Doubts about the green quality of green bonds and risk of green washing: **4**

k. Other (if so, please specify) [*BOX*]

The access to green bonds can be limited by imposed buyer restrictions. To this end, different issuers may present different criteria, and requiring different proof of buyer eligibility.

2) To what extent do you agree that an EU GBS as proposed by the TEG would address the problems and barriers mentioned above in question 1? Please indicate which specific barriers it would address on a scale of 1 to 5 (1 negative impact, 3 no impact, 5 positive impact). Multiple answers are possible.

a. Absence of economic benefits associated with the issuance of green bonds: **3**

b. Lack of available green projects and assets: **4**

c. Uncertainty regarding green definitions: **5**

d. Complexity of the external review procedure(s): **4**

e. Cost of the external review procedure(s): **4**

f. Costly and burdensome reporting processes: **3**

g. Uncertainty with regards to the type of assets (physical and financial) and expenditure (capital and operating expenditure): **5**

h. Lack of clarity concerning the practice for the tracking of proceeds: **5**

i. Lack of transparency and comparability in the market for green bonds: **4**

j. Doubts about the green quality of green bonds and risk of green washing: **4**

k. Other (if so, please specify)

Since the EU GBS is proposed to be a voluntary standard, the positive impact on factors such as transparency, comparability and green quality for the green bond market as a whole, will depend on the level of adoption of this standard in the EU green bond market. While in itself the EU GBS does not directly address the absence of economic benefits associated with the issuance of green bonds (as under 2a), it could eventually prove to have a positive effect in that area as well.

Also, in reference to the issues of buyer restrictions mentioned under 1k) above, further harmonisation in this area could perhaps be achieved by connecting such criteria to, for example, the so-called 'article 8 and article 9 products' under the draft RTS to the Sustainable Finance Disclosure Regulation.

Additionally, as the EU GBS might be linked to the taxonomy, the projected on-going development and regular updating of the taxonomy might affect the long term liquidity of green bonds, in case their 'greenness' is at a certain point no longer substantiated by the taxonomy.

Questions on the proposed content of the standard

3) To what extent do you agree with the proposed core components of the EU GBS as recommended by the TEG? Please express your views using the scale from 1-5 (1 strongly disagree, 3 neutral, 5 strongly agree). Multiple answers are possible.

a. Alignment of eligible green projects with the EU Taxonomy: **5**

b. Requirement to publish a Green Bond Framework before issuance: **5**

c. Requirement to publish an annual allocation report: **5**

d. Requirement to publish an environmental impact report at least once before final allocation: **5**

e. Requirement to have the (final) allocation report and the Green Bond framework verified: **5**

Please specify the reasons for your answer [BOX]

Eumedion strongly supports the core components of the EU GBS. They are necessary to promote a consistent, credible, efficient and comparable market for EU green bonds.

4) Do you agree with the proposed content of the (a) Green Bond Framework, (b) Green Bond allocation report, and (c) Green Bond impact report as recommended by the TEG? Select which elements you agree with. Multiple answers are possible.

a. I agree with the proposed content of the Green Bond Framework.

b. I agree with the proposed content of the Green Bond Allocation Report.

c. I agree with the proposed content of the Green Bond Impact Report.

~~d. None~~

~~e. Do not know~~

If you disagree with the proposed content for some or all of these documents by the TEG, please specify the reasons for your answer [BOX]

5) Do you expect that the requirement to have the Green Bond Framework and the Final Allocation report verified (instead of alternatives such as a second-party opinion) will create a disproportionate market barrier for third party opinion providers that currently assess the alignment of EU green bonds with current market standards or other evaluation criteria?

~~a. Yes~~

b. No

c. Do not know

If yes, please specify the reasons for your answer [BOX]

Questions on the use of proceeds and the link to the EU Taxonomy

The EU Taxonomy Regulation specifies that the Union shall apply the EU Taxonomy when setting out the requirements for the marketing of corporate bonds that are categorised as environmentally sustainable. Given that the EU Green Bonds initiative will pursue, as its core objective, the aim of delineating the boundaries of what shall constitute an 'environmentally sustainable' bond, the Taxonomy will need to be applied to determine the eligibility of the proceeds of the bond issuance. However, there may be reasons to provide a degree of flexibility with regard to its application, or its application in specific cases.

Building on market practice, the proposed EU GBS by the TEG recommends a use-of- proceeds approach, where 100% of the proceeds of an EU Green Bond should be aligned with the EU Taxonomy (with some limited flexibility).

The below questions aim to gather stakeholder input on the application of the taxonomy in the context of EU Green Bonds.

6) Do you agree that 100% of the use of proceeds of green bonds should be used to finance or refinance physical or financial assets or green expenditures that are green as defined by the Taxonomy?

~~a. Yes, with no flexibility~~

b. Yes, but with some flexibility (i.e. <100% alignment)

~~c. No~~

~~d. Do not know~~

Please specify the reasons for your answer. If you selected b., please indicate what thresholds you would suggest, and why. [BOX]

Eumedion is of the opinion that some flexibility should be allowed with regard to financing activities that are not (yet) covered by the taxonomy, as long as there is compliance with the mechanisms as discussed under question 7 below.

7) The TEG proposes that in cases where (1) the technical screening criteria have not yet been developed for a specific sector or a specific environmental objective or (2) where the developed technical screening criteria are considered not directly applicable due to the innovative nature, complexity, and/or the location of the green projects, the issuer should be allowed to rely on the

fundamentals of the Taxonomy to verify the alignment of their green projects with the Taxonomy. This would mean that the verifier confirms that the green projects would nevertheless (i) substantially contribute to one of the six environmental objectives as set out in the Taxonomy Regulation, (ii) do no significant harm to any of these objectives, and (iii) meet the minimum safeguards of the Taxonomy Regulation.

Do you agree with this approach?

a. Yes, both (1) and (2)

~~b. Yes, but only for (1)~~

~~c. Yes, but only for (2)~~

~~d. No~~

~~e. Do not know~~

Please specify the reasons for your answer. Do you see any other reasons to deviate from the technical screening criteria when devising the conditions that Green Bond eligible projects or assets need to meet? If so, please clearly specify the reason for your answer and, where applicable, the respective area or (taxonomy-defined) activity. [BOX]

Eumedion agrees with the thought behind the suggested approach, as a pragmatic solution is needed in light of the on-going development of yet to be defined screening criteria, and to not unnecessarily hamper the uptake of the EU GBS or green innovation. We would like to suggest one additional measure. The registered or supervised verifier should be able to work with clear guidelines in order to provide any confirmation that project or assets not covered by the taxonomy criteria are sufficiently aligned with the fundamentals of the taxonomy. Such verifications should also not only be reported to the Platform for Sustainable Finance for future consideration, but also structurally reviewed in order to keep the verification program up to date and consistent.

Additionally, we feel that measures such as a limited grandfathering period could be considered to prevent green bonds to be labelled as such for projects or assets that, while not yet captured by screening criteria at the time of issuance, can remain so labelled for an entire term even after the development of relevant criteria. However, the additional complexity of such a measure might not outweigh the benefits.

8) As part of the alignment with the EU Taxonomy, issuers of EU Green Bonds would need to demonstrate that the investments funded by the bond meet the requirements on do-no-significant-

harm (DNSH) and minimum safeguards. The TEG has provided guidance in both its Taxonomy Final Report and the EU GBS user guide on how issuers could show this alignment. Do you foresee any problems in the practical application of the DNSH and minimum safeguards for the purpose of issuing EU green bonds?

a. Yes

~~b. No~~

~~c. Do not know~~

Please specify the reasons for your answer [BOX]

Especially where it regards green bonds used as a refinancing tool, problems might arise in light of the DNSH-requirements, for example where it regards qualifying GHG-emissions that have already been realised in a project's earlier phases. We wonder if the proposed alignment with the EU taxonomy is sufficiently flexible to accommodate various situations.

Also, Eumedion is of the opinion that the minimum safeguards regarding social and governance factors, as set out in the EU taxonomy, are in their nature too general. This means that the demonstration of alignment with these minimum safeguards will consequently also be variable in quality and meaningfulness between issuers.

As we also indicate in our response to question 18 below, we urge the EC to update and strengthen the minimum safeguards. In line with the increasing transparency and reporting requirements for the broader set of ESG-factors in EU legislation, as well as due to the increasing importance of social and governance factors for investors and the real economy alike, Eumedion encourages the EC to first and foremost extend the EU taxonomy to social and governance factors.

Lastly, we would like to point out that the data necessary to prove compliance with DNSH and minimum safeguards might not yet be available.

9) Research and Development (R&D) plays a crucial role in the transition to a more sustainable economy, and the proposed EU GBS by the TEG explicitly includes such expenditure as eligible use of proceeds. Do you think the EU GBS should provide further guidance on these types of activities, to either solve specific issues with green R&D or further boost investment in green R&D? If so, please identity the relevant issues or incentives.

~~a. Yes, as there are specific issues related to R&D that should be clarified.~~

~~b. Yes, the proposed EU GBS by the TEG should be changed to boost R&D.~~

c. No, the proposed EU GBS by the TEG is sufficiently clear on this point.

~~d. Do not know~~

Please specify the reasons for your answer [BOX]

Questions on grandfathering and new investments

10) Should specific changes be made to the TEG's proposed standard to ensure that green bonds lead to more new green investments?

a. Yes

~~b. No~~

~~c. Do not know~~

Please specify the reasons for your answer. If you are in favour of changes, please explain what changes should be made [BOX]

Where green bonds are used as a refinancing tool, Eumedion suggests to limit the look-back period for eligible projects to one year. The TEG's proposal to allow a non-specified look-back period might lead to refinancing of eligible but older projects (even 10+ years), that will not at all contribute to more new green investments under the green bond issuance.

11) The EU Taxonomy technical screening criteria will be periodically reviewed. This may cause a change in the status of issued green bonds if the projects or assets that they finance are no longer eligible under the recalibrated taxonomy. In your opinion, should an EU Green Bond maintain its status for the entire term to maturity regardless of newly adapted taxonomy criteria?

a. Yes, green at issuance should be green for the entire term to maturity of the bond.

~~b. No, but there should be some grandfathering.~~

~~c. No, there should be no grandfathering at all. If you no longer meet the updated criteria, the bond can no longer be considered green.~~

~~d. Do not know~~

Please specify the reasons for your answer [BOX]

In the situation that bonds issued for projects or assets that were at the time of issuance already clearly defined under the taxonomy criteria, Eumedion is of the opinion that issuers should not be required to continuously or periodically re-evaluate issued bonds in light of the on-going

development of technical screening criteria. Such a requirement seems disproportionate and will potentially negatively affect a strong up-take of the voluntary standard.

However, as we noted under question 7, in case bonds were issued for projects or assets that were at the time of issuance not (yet) clearly defined under the taxonomy criteria, a grandfathering period could be allowed to, if necessary, re-align such issuances with the new criteria. However, the additional complexity of such a measure might not outweigh the benefits.

If you select b, what should the maximum amount of years for grandfathering?

~~a. 3 years~~

~~b. 5 years~~

~~c. 10 years~~

~~d. 20 years~~

~~e. Different approach all together, please specify reasons for your answer [BOX]~~

Question on incentives

12) Stakeholders have noted that the issuance process for a green bond is often more costly than for a corresponding plain vanilla bond. Which elements of issuing green bonds do you believe lead to extra costs, if any? Please use the scale from 1 (no additional costs) to 5 (very high extra cost) – multiple answers possible:

a. Verification: **do not know**

b. Reporting: **do not know**

c. More internal planning and preparation: **do not know**

d. Other: **do not know**

Please explain and specify the reasons for your answer. [BOX]

If possible, please provide the estimated percentage and monetary increase in costs from issuing using the EU GBS, or – ideally – the costs (or cost ranges) for issuing green bonds under the current market regimes and the estimated costs (or cost range) for issuing under the EU GBS. [BOX]

13) In your view, how would the costs of an official standard as proposed by the TEG compare to existing market standards? Please rate on a scale of 1 to 5 (1 substantially smaller, 3 approximately the same, 5 substantially higher).

Do not know

Please specify the reasons for your answer [BOX]

14) Do you believe that specific financial or alternative incentives are necessary to support the uptake of EU green bonds (green bonds following the EU GBS), and at which level should such incentives be applied (issuer and/or investor)? Please express your view on the potential impact by using the scale from 1 (not strong at all) to 5 (extremely strong) – multiple answers possible:

~~a. Public guarantee schemes provided at EU level, as e.g. InvestEU~~

~~[1] [2] [3] [4] [5]~~

~~b. Alleviations from prudential requirements~~

~~[1] [2] [3] [4] [5]~~

~~c. Other financial incentives or alternative incentives for investors~~

~~[1] [2] [3] [4] [5]~~

d. Other Incentives or alternative incentives for issuers?: **3**

e. None

Please specify the reasons for your answer, in particular if you have chosen “other incentives or alternative incentives” [BOX].

Eumedion is of the opinion that the growth in the green bond market shows sufficient market appetite under both issuers and investors. The establishment of an ambitious, uniform and authoritative framework such as the EU GBS will support this development. Any incentives in terms of realizing an increase in eligible projects and assets (and thus an increase in new green investments) should be accomplished on the level of general (climate) policy, stimulating or discouraging certain economic activities in relation to environmental objectives, not on the level of financial incentives directly related to a financial instrument.

As regarding ‘Other incentives or alternative incentives for issuers’: to promote development of the market for EU GBS, for existing bonds issued under alternative standards and frameworks

such as CBI or ICMA, the EU GBS perhaps could perhaps introduce a phase-in option under the EU GBS.

Other questions related to the EU GBS

The EU GBS as recommended by the TEG is intended to apply to any type of issuer: listed or non-listed, public or private, European or international.

15) Do you foresee any issues for public sector issuers in following the Standard as proposed by the TEG?

~~a. Yes~~

~~b. No~~

c. Do not know

Please specify the reasons for your answer. [BOX]

16) Do you consider that green bonds considerably increase the overall funding available to or improve the cost of financing for green projects or assets?

~~a. Yes~~

~~b. No~~

c. Do not know

Please specify the reasons for your answer. If possible, please provide estimates as to additional funds raised or current preferential funding conditions. [BOX]

II. QUESTIONS ON SOCIAL BONDS AND COVID19

During the ongoing COVID-19, financial markets have so far responded with significantly increased issuance of social bonds responding to the impact of COVID19. These social bonds often follow established market-based Social Bond Principles. The Commission is seeking the input of stakeholders on the lessons learned from this new development, including whether the Commission can play an even greater supportive role in building resilience to address future potential crises.

17) To what extent do you agree with the following statements? Please use the scale from 1 (strongly disagreeing) to 5 (strongly agreeing) – multiple answers possible:

a. Social bonds are an important instrument for financial markets to achieve social objectives: **Do not know**

b. Social bonds targeting COVID19 are an important instrument for financial markets in particular to help fund public and private response to the socio-economic impacts of the pandemic: **Do not know**

c. Social bonds targeting COVID19 are mostly a marketing tool with limited impact on funding public and private responses to the socio-economic impact of the pandemic: **Do not know**

d. Social bonds in general are mostly a marketing tool with limited impact on social objectives: **Do not know**

e. Social bonds in general require greater transparency and market integrity if the market is to grow: **Do not know**

18) The Commission is keen on supporting financial markets in meeting social investment needs. Please select one option below and explain your choice:

~~a. The Commission should develop separate non-binding social bond guidance, drawing on the lessons from the ongoing COVID19, to ensure adequate transparency and integrity.~~

~~b. The Commission should develop an official EU Social Bond Standard, targeting social objectives.~~

~~c. The Commission should develop an official "Sustainability Bond Standard", covering both environmental and social objectives.~~

d. Other Commission action is needed.

~~e. No Commission action is needed in terms of social bonds and COVID19.~~

Please specify the reasons for your answer. [BOX]

In line with the increasing transparency and reporting requirements for the broader set of ESG-factors, as well as the increasing importance of social and governance factors for investors and the real economy alike, Eumedion encourages the EC to first and foremost update and strengthen the (currently very limited) minimum safeguards in terms of social and governance factors in the EU taxonomy and (thus) in the proposed EU GBS. If the EC decides to further develop the EU taxonomy also for social and governance factors (which we encourage the EC to do), this development could inform also the establishment of a broader sustainability bond standard or e.g. specific social bond standards. Such an initiative should be warranted in light of both market developments and the expected contribution of such specific instruments to the sustainability objectives.

19) In your view, to what extent would financial incentives for issuing a social bond help increase the issuance of such bonds? Please use the scale from 1 (very strong increase) to 5 (no increase at all).

Do not know.

Please explain what kind of financial incentives would be needed, if any. [BOX]

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