

TECHNICAL EXPERT GROUP ON SUSTAINABLE FINANCE

SUBGROUP: EU GREEN BOND STANDARD (GBS)

Progress Report

Disclaimer

This report is a progress update. Nothing in this report precludes, prejudices or pre-empts any possible future reports from the Technical Expert Group on Sustainable Finance. Nothing in this report commits the European Commission nor precludes any policy outcomes.

I. Context and ambition level

One of the tasks of the Technical Expert Group (TEG) is to prepare a report outlining recommendations for an EU green bond standard (GBS) by Q2 2019. The ambition of the subgroup is to determine the desirable features of an EU GBS and of its accompanying ecosystem, such as an accredited verification process.

The report will define among others the content of an EU GBS, explain its purpose, set its ambition level, and include an impact assessment of the proposed standard. The report will provide guidance on the way forward for the EU GBS, including on possible legislative initiatives or amendments. It will also feed into the work being launched in parallel by the Commission on a potential EU Ecolabel for green financial products. In addition, the report will elaborate on possible incentives to enhance the growth of green bond issuance and the links with other green financing instruments in a wider context.

The subgroup will present its report to the European Commission in June 2019. On that basis, the European Commission will decide on the next steps with respect to an EU GBS.

The objective of the EU GBS is to:

- (i) increase the flow of finance to green and sustainable projects through the further development of the green bond market, by providing an official European and international standard representing best practice;
- (ii) promote the market's impact through the alignment with the EU taxonomy and the EU's environmental objectives;
- (iii) promote market integrity through robust reporting and a verification process performed by accredited parties.

The EU GBS will also enhance transparency, consistency and comparability of EU green bonds, and thereby set an example for the financial markets at large.

The ambition is to create a standard that most issuers can reach over time and will become an international best practice benchmark. The EU GBS will be available for any type of issuer globally that commits to fulfil its criteria.

II. Interim results

The subgroup has agreed that the EU GBS should be based on the EU taxonomy for sustainable economic activities. In addition, it will build on the widely accepted existing market standards as well as on the work already done by the European Commission's High-Level Expert Group (HLEG) on Sustainable Finance.

The proposed EU GBS will in itself be a voluntary standard, but certain aspects will refer to legislative initiatives such as for example the EU taxonomy. In order to ensure level playing field, the group believes that all types of issuers – public or private sector, European or international – would need to fulfil the requirements to be compliant with the EU GBS.

The subgroup is now creating a template outlining the key components of the proposed EU GBS. The template relies on the current market practice as a basis (i.e. Green Bond Principles), but is more prescriptive and includes additional requirements. This template provides for consistency with the EU taxonomy and environmental objectives, granular description and categorisation of use of proceeds, systematic reporting including on impact, as well as pre and post-issuance verification of alignment with the EU GBS.

Definition

- Green bonds finance or re-finance in part or in full new and/or existing eligible green projects, in line with the EU Sustainability Taxonomy
- Green bonds include listed and non-listed bonds
- The issuance documentation of the bond states the alignment of the EU Green Bond with the four components of the EU Green Bond Standard
- Alignment of the bond with the four components of the GBS must be confirmed by an independent and accredited external verifier
- Existing green bonds can requalify as EU GBS following verification and hence become EU Green Bonds

Core components

- Use of Proceeds (UoP)
- Process for project evaluation and selection
- Tracking of allocation
- Pre-and post- issuance reporting, including impact reporting

External Review

- Verifiers, which must be accredited, need to apply a transparent methodology which will be outlined within the verification report;
- Accreditation and the role of verifiers shall require supervision

The ongoing work on details like refinancing eligibility of expenditures beyond capex in the UoP is intended to take into account the specific needs of public sector and sovereign issuers, as well as corporates.

III. Next steps

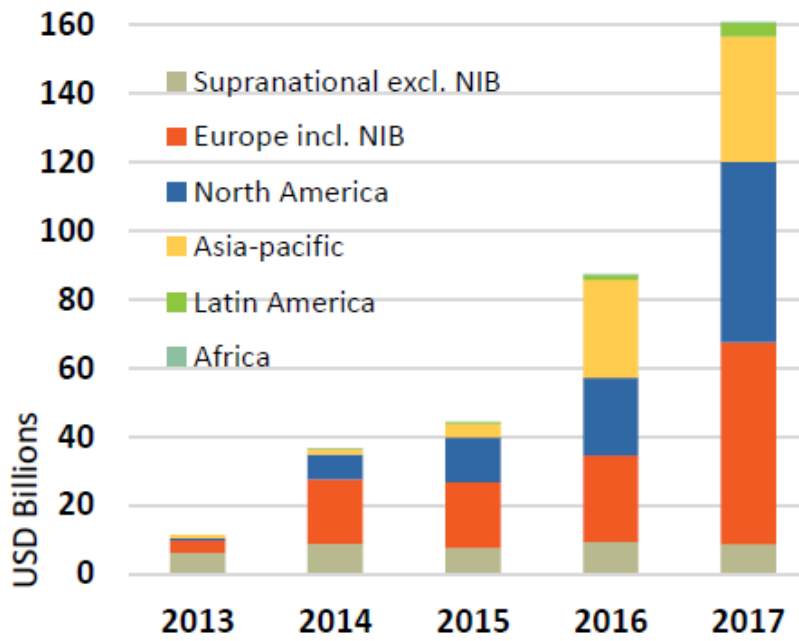
The subgroup will arrange limited outreach consultations already before year-end and will continue the outreach in January. These consultations will target key market participants and their representative associations and groupings. They will include among other corporate issuers, large investors, active underwriters, verifiers and supervisory agencies.

The subgroup plans to open a broader public consultation based on the interim results (GBS draft template) in February/ March 2019.

Questions for the Member States

- (1) Do Member States have any specific comments/concerns/recommendations on the work programme of the TEG for an EU Green Bond Standard?**
- (2) Would Member States have ideas or recommendations on the best ways to incentivise the green bond market, both at European and national level?**
- (3) Do Member States have any recommendations to further facilitate sovereign green issuance or plan to issue sovereign green bonds (if yes, when)?**

Europe more than a third of the global green bond market, Source: Climate Bonds Initiative



Green Bonds in Europe by issuer, Source: Climate Bonds Initiative

