Response of the Stockholm Environment Institute to the targeted consultation on the establishment of an EU Green Bond Standard

The Stockholm Environment Institute (SEI) is an international non-profit research and policy organization that tackles environment and development challenges. Headquartered in Sweden, the institute has centres in Estonia, Thailand, Kenya, UK, US, and Colombia. SEI is also a provider of expert opinions on green bonds as member of the Expert Network on Second Opinion of Green Bond Frameworks.

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As an independent and science-based research institute, SEI does not take positions or views on EU finance policy as such, but given our expertise in sustainable finance and green bonds, we are thankful for the opportunity to comment on the proposal for a EU Green Bond Standard.

Based on our research, we agree with general content and structure of the EU GBS but would like to make the following comments how it can be improved:

First, harmonized impact reporting is key to scaling the European green bond market. We found in our research on Nordic issuers (Forsbacka and Vulturius 2019) and the twenty largest European corporate issuers (Tuhkanen and Vulturius, forthcoming), that impact reporting practices differ greatly between issuers and lack detail. Differences and shortcomings of impact reporting that we found include: lack of reporting on refinancing; lack of project-level reporting on the share of green bonds of total investment, mismatching or imprecise use of proceeds and impact reporting, lack of consideration of project co-ownership, lack of a common impact methodology and external verification.

Importantly, inconsistencies in impact reporting make it difficult for investors, regulators and market observers to compare issuers' performance and attribute environmental benefits to green bonds; it undermines the credibility of the green bond market; and it increase transaction costs and market inefficiencies. With that in mind, we welcome that the EU GBS asks for project or portfolio-based impact reporting of the share of green bond financing of the total costs, the share of refinancing and third-party verification.

Second, we would like to encourage that the newly founded Platform on Sustainable Finance works closely together with other expert organizations in the international green bond market to harmonize impact reporting metrics and develop clear guidance of their use. We found in our research that issuers from similar industries and geographies use impact metrics are not always comparable. For example, we found that in 2018, only three of Europe's largest green bond issuers report their emission reductions from green bonds according to the Greenhouse Protocol. Our findings suggest that inconsistent use of impact metrics increases the risk of double-counting and greenwashing.

Third, we strongly encourage that impact reporting should occur more frequently than only once during the lifetime after full allocation of the bond proceeds. Our research (Maltais and Nykvist 2020) has shown that environmental benefits for green project is one of the key incentives for investors in the green bond market. Therefore, investors are keen to receive regular updates – e.g. on an annual basis – on the environmental return of their investments.

Fourth, we would like to see that the EU GBS compels issuers to link their green bonds to short-term (2030) and long-term (2050) emission reduction targets that are in line with the EU's targets and the goal of the Paris Agreement. Issuers would have to state their targets in their Green Bond Frameworks. Issuers' climate targets and their alignment with EU targets and the Paris Agreement would be part of the external verification process. Issuers would also have to report on the progress they have made on their targets thanks to their green bonds in the impact reporting.

Fifth, asking issuers to link their green bonds to emission reduction targets could be part of an approach to govern the emerging transition bond market. Issuers of transition bonds would need to clarify how they are planning on transitioning their business to align with the EU net-zero-emission target and the Paris Agreement and issue use-proceeds green bonds and general purpose bonds as part of a externally-verified transition framework.

Sixth, we would also like to bring to the attention that more action is needed to scale green bond financing for climate change adaptation. In our recent research (Tuhkanen 2020), we found that efforts are needed to increase investor and issuer awareness of climate-related risks to businesses in the key sectors in need of adaptation; green bond review processes should systematically highlight adaptation- and resilience-related risks wherever relevant; and guidance for the private sector on how to invest in adaptation could increase the inclusion of adaptation- and resilience-type activities in green bond frameworks.

Relevant research from SEI on the topic of green bonds:

Tuhkanen, Heidi and Gregor Vulturius. "Are green bonds funding the transition? Investigating the link between companies' climate targets and green debt financing"." *Journal of Sustainable Finance & Investment*, forthcoming. *(*Please contact Gregor Vulturius gregor.vulturius@sei.org to get a copy)

Maltais, Aaron, and Björn Nykvist. 2020. "Understanding the Role of Green Bonds in Advancing Sustainability." *Journal of Sustainable Finance & Investment*, February, 1–20. doi:10.1080/20430795.2020.1724864. *(open access)*

Forsbacka, Kristina, and Gregor Vulturius. 2019. "A Legal Analysis of Terms and Conditions for Green Bonds." *Europarättslig Tidsskrift* 3: 379–442. (Please contact Gregor Vulturius gregor.vulturius@sei.org to get a copy)

Tuhkanen, Heidi (2020). Green Bonds: A Mechanism for Bridging the Adaptation Gap? SEI Working Paper, February 2020. Stockholm Environment Institute, Stockholm (link)

SEI has also recently published a study on social and sustainability bonds (link) and on the merging green bond market in Africa (link). SEI, in collaboration with the Stockholm School of Economics, the IFC and ICMA, is also hosting the Green Bonds and Sustainable Finance Executive Program. This exclusive program is offered by invitation only to selected banks from emerging markets that have the ambition to increase issuance of green bonds (link).

For more information about the Stockholm Environment Institute, please go to www.sei.org. This consultation response was submitted Gregor Vulturius, Research Fellow and Head of EU Policy Engagement and approved by Rob Watt, Director of Communications and Policy Engagement. This response draws from input and previous work by Aaron Maltais, Heidi Tuhkanen and Björn Nykvist (all SEI) and Katarina Forsbacka (formerly Luleå University).