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Association for Financial Markets in Europe

# AFME response to Consultation on Establishment of EU Green Bond Standard

2 October 2020

AFME welcomes the opportunity to comment on the EU Green Bond Standard ('GBS'), which will constitute an additional milestone in the implementation of a harmonised and consistent European framework for sustainable finance, in line with the objectives established by the EU Action Plan on Financing Sustainable Growth and by the European Green Deal.

Overall, AFME believes that the GBS is well designed and is generally aligned with other market standards. We have provided our detailed responses to questions raised by the consultation in **Appendix A** herein but would like to draw attention of the policymakers to our key messages.

- **EU GBS should remain a voluntary standard**, allowing EU issuers to offer green bonds in line with other international market standards to support the integrity and efficiency of the global green bond market.
- We support the alignment of the GBS with the EU Taxonomy as a principle. However, we believe that **flexibility should be granted for those activities which are not yet covered by the Taxonomy or for which technical screening criteria have not yet been developed**. Furthermore, we highlight that the Taxonomy itself, as designed to date, might limit the number of projects that can qualify for financing under the EU GBS. For example, the EU Taxonomy sets restrictions to the **eligibility of operating expenditures**. Industries that have business models heavily reliant on operating expenditure or on supply chains would rarely be able to issue green bonds under the EU GBS.
- We support the concept of **'do-no-significant-harm'** ('DNSH'). However, this requirement might create problems for assets particularly outside the EU potentially creating a disproportionate barrier and a non-level playing field for non-EU assets. Therefore, **additional guidance would be needed on the scope and application of the DNSH criteria** to understand how the DNSH requirement will be satisfied and verified in practice.
- We would favour **additional clarity regarding the application of the EU GBS to 'sustainable bonds'**, specifically whether an issuer will be required to comply with the GBS in respect of the 'green' component and whether it would be expected to apply existing market guidance/principles to the 'social' element of such bonds.
- **We support the inclusion of R&D as an eligible expenditure for the use of proceeds** as it plays a crucial role in the transition to a more sustainable economy. **We do not believe that the Commission should further define R&D**, given that it has been properly and adequately defined in the final report by the Commission's Technical Expert group on Taxonomy. We also think that issuers should commit, where possible, to providing meaningful impact and outcome reporting on those R&D expenditures, at least in cases where they represent a significant portion of the use of proceeds.
- **EU green bonds should maintain their status for the entire term to maturity regardless of newly updated taxonomy criteria, provided compliance with the eligibility criteria at the point of issuance.** The possibility that a green bond might no longer be classified as green in the future might deter both issuers and investors from issuing and investing in green bonds, given the risk of having to exit the investment when it is no longer qualified as green under the updated criteria. Additionally,

tracking the eligibility of green issuances on a continuous basis to ensure they maintain their status would constitute an unfeasible operational challenge. However, additional disclosure should be provided to indicate the version of the Taxonomy that the bonds were compliant with at the moment when they were issued and qualified as green.

- We believe that **incentives for smaller issuers and investors would be helpful to support the uptake of EU green bonds**. In particular, such initial incentive and support mechanisms (fiscal, risk sharing (e.g. government guarantees), technical assistance) could help smaller issuers to step into the green bond market by being able to provide a competitive risk and return profile on their issuances.
- Social bonds are an important instrument for financial markets to achieve social objectives and have been playing an important role in helping fund public and private response to the socio-economic impacts of the Covid-19 pandemic. AFME believes the **existing market standards already provide sufficient guidance for issuers and investors, therefore creating a separate EU social bond standard would be premature.** The Commission has a number of sustainable finance initiatives on its agenda and should prioritise and address ongoing initiatives before taking on more.

## Conclusion

Green bonds play an increasingly important role in financing assets needed for the low-carbon transition. The EU GBS, as a common EU framework, will help create a strong foundation to accelerate capital flows towards the EU's environmental objectives. The Standard will help boost the market for the 'best in class' green bonds, which will foster the credibility and integrity of such a market, subject to the EU Taxonomy being fully developed and implemented.

We would like to thank the EU policymakers for the vital work accomplished so far and we look forward to continued engagement and dialogue on this important matter. We stand ready to discuss the content our response or to provide any further clarity regarding the statements made.

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**About AFME**

AFME (Association for Financial Markets in Europe) advocates for deep and integrated European capital markets which serve the needs of companies and investors, supporting economic growth and benefiting society. AFME is the voice of all Europe's wholesale financial markets, providing expertise across a broad range of regulatory and capital markets issues. AFME aims to act as a bridge between market participants and policy makers across Europe, drawing on its strong and long-standing relationships, its technical knowledge and fact-based work. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu.