EFAMA

European Fund and Asset Management Association

EFAMA's REPLY TO THE EUROPEAN COMMISSION's TARGETED CONSULTATION ON THE ESTABLISHMENT OF AN EU GREEN BOND STANDARD

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Rue Marie-Thérèse 11 | B-1000 Bruxelles
T +32 2 513 39 69 | info@efama.org | www.efama.org
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TARGETED CONSULTATION ON THE ESTABLISHMENT OF AN EU GREEN BOND STANDARD

EXECUTIVE SUMMARY

EFAMA, the voice of the European investment management industry, strongly supports the initiative to establish an EU Green Bond Standard (GBS). We believe that, thanks to the recommendations made by the TEG, the GBS has a great potential to effectively play its important role in financing assets needed for the low-carbon transition.

A coherent and well-specified GBS will enhance clarity, consistency, and comparability in the European market for green bonds, thereby encouraging issuers (both private and public) and investors to channel funds towards Taxonomy-aligned activities. For the GBS to be effective, particularly in the near-term, it's important to find the right balance between strict criteria to fight greenwashing and enough flexibility to (i) avoid placing barriers to the evolution of market practices and to (ii) encourage the coverage of more sectors of the economy.

EFAMA's key messages in response to the Commission's targeted consultation are the following:

- An EU GBS as proposed by the TEG would solve many of the problems and barriers in today's EU green bond market. It would introduce greater certainty regarding green definitions and the eligibility of certain assets, help allocate effectively economic benefits or other incentives, and avoid greenwashing by clearing doubts about the quality of green bonds.

- Some other issues would remain, such as the difficulties in analysing and comparing issuers' ESG policies, insufficient coverage of different sectors of the economy, and the fact that operating expenses would not be eligible in most circumstances.

- The requirement to have the (final) allocation report and the Green Bond framework verified is a key feature of the EU GBS and we believe it is essential to ensure transparency and credibility. We do not expect this provision to raise excessive market barriers, nor do we believe that it will carry significant costs for issuers.

- We agree with the proposed content of the documents recommended by the TEG to be part of the Standard (Green Bond Framework, Allocation Report, Impact Report), although we note that, to improve clarity, the description of the projects in the Framework could be aggregated for each type or sector.

- At this stage of market and regulatory developments, there should be some flexibility on what percentage of the use of proceeds should be linked with eligible activities under the EU Taxonomy. The alignment threshold should be subject to materiality consideration and ensure that greenwashing is effectively avoided. At the same time, it is important to ensure full transparency and regular reporting of the percentage alignment to the EU Taxonomy.

- An EU Green Bond should maintain its status for its entire term to maturity. We believe this guarantee is a pre-condition for investors and is necessary for portfolio construction, for reporting, and to fulfil end-investors preferences in specific mandates.

- The development of an EU social taxonomy is a pre-condition to establishing an EU Social Bond Standard. In the near-term, however, we believe that there should be space for market practices to develop, while the Commission's efforts should be concentrated on the completion of the EU Taxonomy, and it is premature to consider economic benefits linked to social bonds.

YOUR ROLE IN THE GREEN BOND MARKET

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

☐ Issuer

☐ Investor

☐ Verifier / external reviewer / 3rd party opinion provider

☐ Intermediary

☐ Market-infrastructure

☐ NGO

☐ Public Authority

☒Trade or Industry Association

☐ Other

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

Question 1. In your view, which of the problems mentioned below is negatively affecting the EU green bond market today? How important are they?

	1 (no impact at all)	**2** (almost no impact)	**3** (some impact)	**4** (strong impact)	**5** (very strong impact)	Don't know - No opinion - Not applicable
a. Absence of economic benefits associated with the issuance of green bonds	☐	☐	☒	☐	☐	☐
b. Lack of available green projects and assets	☐	☐	☐	☐	☐	☒
c. Uncertainty regarding green definitions	☐	☐	☒	☐	☐	☐
d. Complexity of external review procedures	☒	☐	☐	☐	☐	☐
e. Cost of the external review procedure(s)	☒	☐	☐	☐	☐	☐
f. Costly and burdensome reporting processes	☐	☐	☐	☒	☐	☐
g. Uncertainty with regards to the eligibility of certain types of assets (physical and financial) and expenditure (capital and operating expenditure)	☐	☐	☐	☒	☐	☐
h. Lack of clarity concerning the practice for the tracking of proceeds	☐	☒	☐	☐	☐	☐
i. Lack of transparency and comparability in the market for green bonds	☐	☒	☐	☐	☐	☐
j. Doubts about the green quality of green bonds and risk of green washing	☐	☒	☐	☐	☐	☐
k. Other	☐	☐	☐	☒	☐	☐

Please specify what you referred to as 'other' in question 1:

By clarifying the type of eligible projects for green bonds, and what the minimum threshold should be (e.g. for transition projects), the industry will be able to effectively continue to develop investor confidence and market depth.

However, we believe that the challenges in analysing and comparing complex and very different processes for ESG integration between different issuers are limiting investment in green bonds, and therefore have a strong negative impact on the EU green bond market today.

In the reply to question 2, we elaborate on some of the other outstanding barriers in the European market for green bonds, such as insufficient coverage of different sectors of the economy, and the fact that operating expenses would not be eligible in most circumstances.

Question 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?

	1 (very negative impact)	**2** (rather negative impact)	**3** (no impact)	**4** (rather positive impact)	**5** (very postive impact)	Don't know - No opinion - Not applicable
a. Absence of economic benefits associated with the issuance of green bonds	☐	☐	☐	☒	☐	☐
b. Lack of available green projects and assets	☐	☐	☒	☐	☐	☐
c. Uncertainty regarding green definitions	☐	☐	☐	☐	☒	☐
d. Complexity of external review procedures	☐	☐	☐	☒	☐	☐
e. Cost of the external review procedure(s)	☐	☐	☒	☐	☐	☐
f. Costly and burdensome reporting processes	☐	☐	☒	☐	☐	☐
g. Uncertainty with regards to the eligibility of certain types of assets (physical and financial) and expenditure (capital and operating expenditure)	☐	☐	☐	☒	☐	☐
h. Lack of clarity concerning the practice for the	☐	☐	☐	☒	☐	☐

tracking of proceeds						
i. Lack of transparency and comparability in the market for green bonds	☐	☐	☐	☒	☐	☐
j. Doubts about the green quality of green bonds and risk of green washing	☐	☐	☐	☐	☒	☐
k. Other	☐	☐	☐	☒	☐	☐

Please specify what you referred to as 'other' in question 2:

- **Coverage of different sectors**: currently, the vast majority of green bonds are in financials, real estate, and utilities – while progressively technology companies are starting to participate. It is important to allow for a flexible and proportionate approach, to allow for more diversification, while, at the same time, prevent green-washing. Achieving a balance between extending the scope to different sectors and ensuring robust criteria is indeed a delicate exercise, however a necessary one.

  In addition, the current criteria – particularly for renovations of buildings, but also on the DNSH assessment – leave room for other standards to prevail in the market (e.g. standards that consider a renovated building as green and not just the cost of its renovation as in the Taxonomy). This could slow down the uptake of an EU standard.

- **Inclusion of operating expenditures**: the TEG recommends to include any capital expenditure and selected operating expenditures such as maintenance costs related to green assets that either increase the lifetime or the value of the assets, and research and development costs. However, operating costs such as purchasing costs and leasing costs would not normally be eligible except in specific and/or exceptional cases as may be identified in the EU Taxonomy and future related guidance.

  Effectively, unless there is an underlying green asset, it is very hard for projects to qualify under the EU GBS. This significantly limits the range of eligible projects and effectively restricts several industries from issuing EU Green Bonds. Industries that have an operating expenditure business model, or are reliant on supply chains, such as IT & technology, apparel, pharmaceuticals, and retail, are practically excluded.

  A number of those companies have now issued sustainability bonds that would not qualify under the current EU GBS. We believe that the Taxonomy, partially complemented by technical standards, still significantly limits the range of projects eligible for EU green bonds. Therefore, we believe that the inclusion of operating expenditures would have a strong positive impact in addressing the problems identified above, and it will enable the transition in critical sectors of the economy.

Question 3. To what extent do you agree with the proposed core components of the EU GBS as recommended by the TEG?

	1 (strongly disagree)	2 (rather disagree)	3 (neutral)	4 (rather agree)	5 (strongly agree)	Don't know - No opinion - Not applicable
Alignment of eligible green projects with the EU Taxonomy	☐	☐	☐	☐	☒	☐
Requirement to publish a Green Bond Framework before issuance	☐	☐	☐	☐	☒	☐
Requirement to publish an annual allocation report	☐	☐	☐	☐	☒	☐
Requirement to publish an environmental impact report at least once before final allocation	☐	☐	☐	☒	☐	☐
Requirement to have the (final) allocation report and the Green Bond framework verified	☐	☐	☐	☒	☐	☐

Question 3.1 Please specify the reasons for your answer to question 3:

As investors, we believe that there are three key features necessary for the growth and development of the green bonds market:

- **Clarity**: we want to feel comfortable that when we purchase a green bond, those funds will indeed be invested in the projects that were advertised, and that the projects themselves will provide a positive environmental impact.
- **Consistency**: we want to know that the reporting requirements are being applied consistently across all the companies that we could potentially choose to invest in, and that the scope for "window dressing" environmental benefits has been minimised to the greatest extent possible.
- **Comparability**: similarly, we wish to be able to compare *apples with apples* when it comes to making our investment decisions around bonds, something that is only possible with standardised disclosure and reporting requirements within the market.

All 3 of these aspects are tackled by the proposed core components of the EU GBS as recommended by the TEG, and hence we believe they would go a long way to helping the development of the green bond market.

In addition, we believe that the requirement to have the (final) allocation report and the Green Bond framework verified is important to ensure transparency and consistency. This is particularly true when the alignment of the Green Bond framework with the EU Taxonomy is verified on a portfolio basis.

We recommend that, in that case, a spot check verification on a representative sample of allocations is performed on a number of investment portfolios from the same company.

Question 4. Do you agree with the proposed content of the following documents as recommended by the TEG?

Please note that these reporting requirements refer only to the requirements in relation to the issued green bond (it is common in the green bond market to have reporting on the bond). These reporting requirements are not related to disclosure requirements for companies or funds, which arise from the EU Taxonomy Regulation or the Sustainability – related Disclosures Regulation.

a) The Green Bond Framework:

☒ Yes, I do agree with the proposed content of the Green Bond Framework

☐ No, I disagree with the proposed content of the Green Bond Framework

☐ Don't know / no opinion / not relevant

b) The Green Bond Allocation Report:

☒ Yes, I do agree with the proposed content of the Green Bond Allocation Report

☐ No, I disagree with the proposed content of the Green Bond Allocation Report

☐ Don't know / no opinion / not relevant

c) The Green Bond Impact Report:

☒ Yes, I do agree with the proposed content of the Green Bond Impact Report

☐ No, I disagree with the proposed content of the Green Bond Impact Report

☐ Don't know / no opinion / not relevant

Question 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?

☐ Yes

☒ No

☐ Don't know / no opinion / not relevant

Question 5.1 Please specify the reasons for your answer to question 5:

As highlighted in other replies to this questionnaire, we do not believe that the verification provisions recommended by the TEG will create a disproportionate market barrier for third party providers.

We welcome the requirement to have the Green Bond Framework and the Final Allocation report verified and believe these are important features of the proposed standard, as they will increase the quality and help improve the level of professionalism around sustainability and certification standards compared to what we have witnessed in the past.

We believe the skills, experience, and process knowledge that existing third-party opinion providers already own will be transferable in such a way that they can be accredited as external verifiers.

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.

Question 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?

☐ Yes, with no flexibility

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

☐ No

☐ Don't know / no opinion / not relevant

Please indicate what thresholds you would suggest:

Only values between 1 and 99 are allowed

– %

Please explain why you would suggest that thresholds:

5000 character(s) maximum

N/A

Question 6.1 Please specify the reasons for your answer to question 6:

5000 character(s) maximum

While we understand that a 100% threshold would enhance the clarity, transparency and credibility of the green bond framework, and avoid the costs of more complex monitoring, we acknowledge that there are other costs associated with a business, rather than just capex, that the proceeds of bonds are traditionally spent on. Taking a very restrictive approach could end up limiting financing of transition activities in 'brown sectors' – where sustainable finance is often most needed – and limiting the sector's involvement in green bonds.

Furthermore, at the current stage of the Taxonomy development, only a small subset of economic activities can be assessed against the technical criteria and be evaluated only on their contribution to two out of six environmental goals (climate change mitigation and adaptation). This will limit the pipeline of green projects that may qualify under the Taxonomy. To achieve sufficient market coverage and to mobilise the necessary capital to finance the transition, we recommend allowing for some degree of flexibility on the use of proceeds specified in an EU GBS framework, as it is the case of other market-leading standards.

Therefore, we see the benefits of specifying a maximum threshold for the green bond proceeds that can be used for operating expenditure (opex) that support the development of the green project and encourage transition activities. However, the percentages of project financing that are (1) fully aligned with the Taxonomy, (2) aligned in principle (absent the relevant technical criteria) or (3) less green than the Taxonomy, need to be disclosed at the issuance as part of the Green Bond Framework and regularly reported to investors.

Question 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?

☒ Yes, both 1. and 2.

☐ Yes, but only for 1.

☐ Yes, but only for 2.

☐ No

☐ Don’t know / no opinion / not relevant

Question 7.1 Please specify the reasons for your answer to question 7:

We think that accepting the fact that not every single environmentally positive investment project can be prescriptively described at this stage ensures the longevity and flexibility of the EU`s GBS. We believe that projects that display environmental benefits which are aligned with the overriding objectives and themes of the taxonomy (as described above), should still benefit from a positive verification. A different approach could stifle the development of new and beneficial technology not yet described in the Taxonomy.

At the same time, investors need full disclosure about the extent of financing that is attributable to fully Taxonomy-aligned activities and those that are potentially aligned or even “lighter green“to comply with their own reporting obligations and potential investment commitments relating to the Taxonomy. Therefore, the respective information needs to be part of the proposed Green Bond Framework as well as regular allocation reports. We also recommend that, where the developed technical screening criteria are considered not directly applicable, the issuer should specify the reasons for why that is the case.

Question 7.2 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?

☐ Yes

☒ No

☐ Don’t know / no opinion / not relevant

Question 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?

☐ Yes

☐ No

☒ Don’t know / no opinion / not relevant

Question 8.1 Please specify the reasons for your answer to question 8:

5000 character(s) maximum

N/A

Question 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?

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

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

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

☐ Don’t know / no opinion / not relevant

Question 9.1 Please specify the reasons for your answer to question 9:

While we believe the TEG proposal is sufficiently clear, we recommend that this aspect is monitored for upcoming barriers to be addressed in later reviews of the standard, to find the appropriate balance between regulatory flexibility and effective guidance.

Questions on grandfathering and new investments

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

☒ Yes

☐ No

☐ Don’t know / no opinion / not relevant

Question 10.1 If you are in favour of changes, please explain what changes should be made

We believe that there is a need for more flexibility than the current taxonomy allows on, in particular, renovations of buildings (as described in the reply to Question 2). We want to reiterate that the current framework, focused on capital expenditure, does not properly reflect modern economies. The restrictions around operating expenditure prevent a significant portion of ESG-related bond issuance from qualifying under the GBS. Therefore, we urge the Commission to address the restrictions around expenditures that qualify under the EU GBS to facilitate the transition to a more sustainable economy by providing financing for additional sustainable projects.

We would also recommend complementing the TEG recommendations with appropriate measures aimed at:

- Facilitating the pick-up of knowledge on how to measure impacts (e.g. DNSH) for example through a repository of case studies per each sector, or a series of accredited consultants offering formation, etc.

- Incentivizing green investment portfolios, for example through fiscal or regulatory incentives similar to the tax-exempt bonds utilized by US municipalities and the tax credit bonds, such as the U.S. federal government Clean Renewable Energy Bonds and Qualified Energy Conservation Bonds (QECBs) program, where 70% of the coupon is provided by a tax credit or subsidy.

Besides the suggestions, we believe the proposed structure of an EU GBS as described by the TEG will be sufficient to drive the standardization, transparency and simplification of the green bond market in EU to such a level that it will continue to attract capital flows from a rapidly growing investor base hungry for environmentally positive investments. Such growth in capital flows to the green bond market, we believe, will reduce funding costs for issuers and lead to their development of more green business projects as they become financially more attractive than traditional “brown” investments.

Question 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?

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

☐ No, but there should be some grandfathering

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

☐ Don’t know / no opinion / not relevant

Question 11.1 Please specify the reasons for your answer to question 11:

A distinct feature of EU Green Bonds should be the alignment of the use of proceeds (or at least a significant part of it) with the EU Taxonomy. Investors will buy EU Green Bonds precisely for that reason (i.e. as part of a Taxonomy-aligned investment strategy or to fulfil certain Taxonomy quota) and must be able to rely on its continuous compliance with the Taxonomy requirements. If a project financed by an EU Green Bond does not longer qualify as environmentally sustainable according to the Taxonomy, this part of the GB programme should immediately fall out of the Taxonomy bucket. It is important for investors that if they invest in an EU Green Bond, that Bond will remain one. This will provide for a greater degree of certainty.

For investors, the certainty that an EU Green Bond will maintain its status for the entire term to maturity is a pre-condition for portfolio constriction, for reporting, and to fulfil end-investors preferences in specific mandates. The termination of a Green Bond’s status could trigger forced selling from green-bond-only funds, and cause its price fall significantly (similarly to the situation where a bond is downgraded from “Investment Grade” to “High-Yield”, and is therefore forced out of investment-grade only funds). In our view, the uncertainty introduced by any other approach would translate into uncertainty over the returns of the investment, thus increasing the funding cost of the green bond to the issuer and, ultimately, hindering the growth and development of the green bond market.

Question on incentives

Question 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?

	1 (no additional costs)	**2** (low extra cost)	**3** (extra cost)	**4** (high extra cost)	**5** (very high extra cost)	Don't know - No opinion - Not applicable
Verification	☐	☒	☐	☐	☐	☐
Reporting	☐	☒	☐	☐	☐	☐
More internal planning and preparation	☐	☒	☐	☐	☐	☐
Other	☐	☐	☐	☐	☐	☒

Question 12.1 Please specify the reasons for your answer to question 12, and if possible, 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:

The introduction of new rules on verification and reporting may indeed carry additional costs. However, we do not expect this increase in costs to be substantial. The knowledge and processes already developed by market players in verification and auditing will only require light adjustments to accommodate for the proposed EU GBS requirements. Soon, disclosures under the revised NFRD and the EU Taxonomy Regulation have the potential to mitigate these costs by narrowing down the current ESG data gap. Overall, the benefits from the establishment of an EU GBS will outweigh the small increase in the costs associated with the issuance process for a green bond.

Question 13. In your view, how would the costs of an official standard as proposed by the TEG compare to existing market standards?

☐ 1 - Substantially smaller

☒ 2 - Somehow smaller

☐ 3 - Approximately the same

☐ 4 - Somehow higher

☐ 5 - Substantially higher

Question 13.1 Please specify the reasons for your answer to question 13:

An official market-wide standard reduces uncertainty, ambiguity, and complexity. This would increase the volume of market participants investing in obtaining green certification. As with any other product, higher volumes and standardization should lead to lower costs of production, and therefore lower costs to the consumer.

However, this may only become apparent when the market has scaled up its capacity to be able to provide official standard certifications. In addition, the reduction in costs will not be substantial as the process to verify alignment with the Taxonomy will partially offset the benefits of an official standard.

Furthermore, compliance with EU taxonomy and DNSH requirements are to be assessed on a by-project basis and this can be time-consuming for smaller players due to documentary requirements and calculation requirements.

Question 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:

	1 (very low impact)	**2** (rather low impact)	**3** (a certain impact)	**4** (rather high impact)	**5** (very high impact)	Don't know - No opinion - Not applicable
Public guarantee schemes provided at EU level, as e.g. InvestEU	☐	☐	☐	☒	☐	☐
Alleviations from prudential requirements	☐	☐	☐	☐	☐	☒
Other financial incentives or alternative incentives for investors	☐	☐	☐	☒	☐	☐
Other incentives or alternative incentives for issuers?	☐	☐	☐	☐	☐	☒

Question 14.1 Please specify the reasons for your answer to question 14, in particular if you indicated an important impact of “other incentives or alternative incentives”:

Currently, in bond markets, there is often very little pricing differentiation between the “green” and “brown” bonds issued by a company. The issuer receives little direct financial benefit from choosing to achieve a green labelling of their bond. This is often explained by investors by the fact that the bonds in effect share the same credit exposure to the issuer, regardless of whether the bond is labelled green or not. However, should there be other incentives for issuers/investors to issue/invest in, then the attractiveness of the green bond increases ceteris paribus, increasing demand for such green bonds. Ultimately this should lead to lower borrowing costs for green projects which we believe is the overriding goal of the development of the green bond market. We believe that public guarantee schemes could prove very useful to enhance innovative green projects, and financial incentives levied on the proceeds could enhance the uptake of the EU GBS. On the other hand, we note that alleviations from prudential requirements should not be classified as financial incentives. The prudential treatment of these assets should be linked to a broader risk assessment that considers many different factors. Placing more weight on individual factors (i.e. the “greenness” of a bond) would result in a misrepresentation of the risk profile of the asset, with harmful and misleading consequences.

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.

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

☐ Yes

☐ No

☒ Don’t know / no opinion / not relevant

Question 15.1 Please explain your answer to question 15:

N/A

Question 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?

☒ Yes

☐ No

☐ Don’t know / no opinion / not relevant

Question 16.1 Please explain your answer to question 16. If possible, please provide estimates as to additional funds raised or current preferential funding conditions:

As indicated in our reply to question 10.2, we believe the proposed structure of an EU GBS as described by the TEG will be sufficient to drive the standardization, transparency and simplification of the green bond market in EU to such a level that it will attract capital flows from a rapidly growing investor base hungry for environmentally positive investments. Such growth in capital flows to the green bond market, we believe, will reduce funding costs for issuers and lead to their development of more green business projects as they become financially more attractive than traditional "brown" investments.

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.

Question 17. To what extent do you agree with the following statements?

	1 (strongly disagree)	**2** (rather disagree)	**3** (neutral)	**4** (rather agree)	**5** (strongly agree)	Don't know - No opinion - Not applicable
Social bonds are an important instrument for financial markets to achieve social objectives.	☐	☒	☐	☐	☐	☐
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	☐	☒	☐	☐	☐	☐
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.	☐	☐	☐	☒	☐	☐
Social bonds in general are mostly a marketing tool with limited impact on social objectives.	☐	☐	☒	☐	☐	☐

Social bonds in general require greater transparency and market integrity if the market is to grow.	☐	☐	☐	☐	☒	☐

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

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

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

☐ The Commission should develop an official “Sustainability Bond Standard”, covering both environmental and social objectives.

☐ Other Commission action is needed.

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

Question 18.1 Please explain your answer to question 18:

We do not believe that the development of an official EU Social Bond Standard should be a priority for the Commission at this stage. Market participants are already developing standards for this purpose, while any effort from the commission should follow the completion of the EU Taxonomy. We also find it important to note that an EU Social Bond should be linked to an appropriate classification system for what investments would qualify for it, therefore the development of an EU “social” taxonomy is a pre-condition to an EU Social Bond Standard.

Until then, the development of a separate, non-binding social bond guidance could be a useful tool for the market. The EU Social Bond Standard could be the long-term evolution of non-binding guidance. For simplification and ease-of-use reasons, the development of a green bond standard and a social bond guidance should be kept separate, as the alternative would significantly increase complexity and result too onerous for markets to adopt it.

It is also our opinion that the target investor bases for green bonds and social bonds may differ significantly in their wants and needs. Green bond investors tend to be looking to maintain the same level of financial return while reducing their risk exposure. However, Social Bond investors often tend to be more “impact investors”, looking to achieve a beneficial social outcome over financial returns. As such, the two concepts should be kept separate.

Question 19. In your view, to what extent would financial incentives for issuing a social bond help increase the issuance of such bonds?

☐ 1 - Very strong increase

☒ 2 - Rather strong increase

☐ 3 - Rather low increase

☐ 4 - Very low increase

☐ 5 - No increase at all

Question 19.1 Please explain what kind of financial incentives would be needed:

While we concur that financial incentives for issuing a social bond would help increase the issuance of such bonds, the effectiveness of incentives largely depends on the circumstances and the specific features that the Commission will be considering. A more detailed proposal and analysis are needed to predict the increase in issuance promoted by possible incentives.

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About EFAMA:

EFAMA, the voice of the European investment management industry, represents 28 Member Associations, 60 Corporate Members and 23 Associate Members. At end Q2 2020, total net assets of European investment funds reached EUR 17.1 trillion. These assets were managed by almost 34,200 UCITS (Undertakings for Collective Investments in Transferable Securities) and more than 29,100 AIFs (Alternative Investment Funds).

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Contact:
Giorgio Botta
Regulatory Policy Advisor
giorgio.botta@efama.org
+32 2 548 26 54