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

Financial markets
Asset management

TARGETED CONSULTATION DOCUMENT

ESTABLISHMENT OF AN EU GREEN BOND STANDARD

Disclaimer

This document is a working document of the Commission services for consultation and does not prejudge the final decision that the Commission may take.

The views reflected on this consultation paper provide an indication on the approach the Commission services may take but do not constitute a final policy position or a formal proposal by the European Commission.

The responses to this consultation paper will provide important guidance to the Commission when preparing, if considered appropriate, a formal Commission proposal.

You are invited to reply **by 2 October 2020** at the latest to the **online questionnaire** available on the following webpage:
https://ec.europa.eu/info/publications/finance-consultations-2020-eu-green-bond-standard_en

Please note that in order to ensure a fair and transparent consultation process **only responses received through the online questionnaire will be taken into account and included in the report summarising the responses**.

This consultation follows the normal rules of the European Commission for public consultations. Responses will be published unless respondents indicate otherwise in the online questionnaire.

Responses authorised for publication will be published on the following webpage:
https://ec.europa.eu/info/publications/finance-consultations-2020-eu-green-bond-standard_en

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 **X**
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
   [1] **[2]** [3] [4] [5]
b. Lack of available green projects and assets
   [1] [2] **[3]** [4] [5]
c. Uncertainty regarding green definitions
   [1] [2] [3] **[4]** [5]
d. Complexity of the external review procedure
   [1] [2] [3] **[4]** [5]
e. Cost of the external review procedure(s)
   [1] [2] **[3]** [4] [5]
f. Costly and burdensome reporting processes
   [1] [2] [3] [**4]** [5]
g. Uncertainty with regards to the eligibility of certain types of assets (physical and financial) and expenditure (capital and operating expenditure)
   [1] [2] [**3**] [4] [5]
h. Lack of clarity concerning the practice for the tracking of proceeds
   [1] [2] **[3]** [4] [5]
i. Lack of transparency and comparability in the market for green bonds
   [1] [2] **[3]** [4] [5]
j. Doubts about the green quality of green bonds and risk of green washing
   [1] [2] **[3]** [4] [5]
k. Other (if so, please specify) [BOX]

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
      [1] [2] **[3]** [4] [5]
   b. Lack of available green projects and assets
      [1] [2] [3] **[4]** [5]
   c. Uncertainty regarding green definitions
      [1] [2] [3] [4] **[5]**
   d. Complexity of the external review procedure(s)
      [1] [2] **[3]** [4] [5]
   e. Cost of the external review procedure(s)
      [1] [2] **[3]** [4] [5]
   f. Costly and burdensome reporting processes
      [1] [2] [3] **[4]** [5]
   g. Uncertainty with regards to the type of assets (physical and financial) and expenditure (capital and operating expenditure)
      [1] [2] [3] [4] **[5]**

h. Lack of clarity concerning the practice for the tracking of proceeds
   [1] [2] [3] **[4] [**5]
i. Lack of transparency and comparability in the market for green bonds
   [1] [2] [3] **[4] [**5]
j. Doubts about the green quality of green bonds and risk of green [1] [2]
   [3] **[4]** [5]
k. Other (if so, please specify) [BOX]

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
   [1] [2] [3] [4] **[5]**
b. Requirement to publish a Green Bond Framework before issuance
   [1] [2] [3] [4] **[5]**
c. Requirement to publish an annual allocation report [1] [2] [3] **[**4]
   [5]
d. Requirement to publish an environmental impact report at least once before final allocation
e. [1] [2] [3] [4**] [5]**
f. Requirement to have the (final) allocation report and the Green Bond framework verified
g. [1] [2] [3] [4] **[5]**

Please specify the reasons for your answer [**We agree with the requirement to have the final allocation report and the Green Bond Framework verified, but we also request for a final report allowing updatings as the allocation of the proceeds could change up to the maturity of the green bond**]

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?[1] Select which elements you agree with. Multiple answers are possible.

a. I agree with the proposed content of the Green Bond Framework. **X**
b. I agree with the proposed content of the Green Bond Allocation Report. **X**
c. I agree with the proposed content of the Green Bond Impact Report. **X**
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]

[1] 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.

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 **X**
   c. Do not know

If yes, please specify the reasons for your answer [**We don't expect that the verification of Green Bond Framework and Final Allocation report could create market barriers for third party opinion providers since we think they have the necessary skills to carry out the verifications mentioned above. Probably we could see an increase in their fees that up to now are not excessive: that should be an issue for smaller issuers**]

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

The EU Taxonomy Regulation[2] 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) **X**
   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. [**We believe that the threshold of 100% of the use of proceeds could be reached by some issuers only after a certain time as some issuers (e.g banks) need time to adapt their internal procedures and organization to the EU taxonomy. A further reason to provide a (substantial) degree of flexibility at this stage is related to certain loans that - despite being extended to borrowers not belonging to green sectors under the Taxonomy - are specifically targeted to make their business converge toward a more sustainable model. Although this angle is also addressed by question 9 below, that point concerns R&D expenditures only. Thus we support a flexibility period (threshold at …< % of alignment) for the initial phase of Taxonomy application after which**

that threshold could be incresead at 100%].

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

[2] See agreed compromise text: https://data.consilium.europa.eu/doc/document/ST-5639-2020-INIT/en/pdf

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) **X**
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.
[We agree with TEG proposals aimed at allowing an issuer to rely on the fundamentals of the Taxonomy if technical screening criteria have not yet been developed or where the technical screening criteria are considered not directly applicable. Indeed this approach would allow to reach minimum objectives and safeguards]

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**. [Regarding the other reasons to deviate from technical screening criteria. Please see answer under n. 6 above]**

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 **X**
c. Do not know

Please specify the reasons for your answer [**From a general point of view we don't foresee any problems in the practical application of the DNSH and minimum safeguards for the purpose of issuing EU green bonds but it requires new internal process in order to evaluate the investments in line with the environmental objectives set up under the EU Taxonomy In agreement with the WG "High-level recommendations on the voluntary application of the Eu Taxonomy to core banking products", coordinated by EBF and UNEP and with ISP participation, we however confirm the strong need to develop a guidance by the GBS to clarify and assess DNSH criteria, combined with the creation of tools to facilitate data collection and assessment.]**

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. **X**

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 [**We think the EU GBS should provide specific guidance on these types of activities, as R&D is fundamental for certain investments]**

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 **X**
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 [**We don't support, at an early stage of application, changes to the TEG's proposed standard that could arise misunderstandings amid new issuers in the use of these standards. Only in a second phase we would see changes to the standard to increase green investments**]

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. **X**
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 [**We think that maintaining the "green bonds status" (grandfathering) gives more financial certainty and stability to the issuers (e.g corporates) that have started medium/long term investments in real economy and to the investors that have invested in green bonds issued under certain Taxonomy criteria]**.

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
[1] [2] [3] **[4]** [5]
b. Reporting
[1] [2] [3] **[4]** [5]
c. More internal planning and preparation
[1] [2] [3] **[4]** [5]

d. Other

Please explain and specify the reasons for your answer. **[We consider that for a corporate issuer the highest extra costs are linked to the verification and reporting requirements, especially for the smaller issuers. For a bank issuer internal planning and preparation may create higher extra costs but also verification and reporting requirements]**

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. [**A part from what we have already indicated on Q.2 , we don't see, from a theoretical point of view, increasing costs for issuing green bonds under the EU GBS as issuers are already using other equivalent international standards. A possible source of extra cost may be the compliance to the taxonomy. However this could be assessed at a later stage when issuers will start using the EU GBS in practice]**

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).

[1] [2] **[3]** [4] [5]

Please specify the reasons for your answer **[A part from we have already indicated under Q.2 and Q12 currently we don't see differences in terms of costs for issuing green bonds between EU GBS and existing market standards. However, as already said, this will need to be verifyied when the EU GBS will be used in practice]**

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?
   [1] [2] [3] [4] **[5]**
e. None

Please specify the reasons for your answer, in particular if you have chosen "other incentives or alternative incentives" [**We consider necessary for corporate issuers, especially SME, to introduce public guarantee schemes at EU level (e.g. EIB or Invest EU) in order to enhance the credit risk profile for the investors; for bank issuers we also consider necessary to introduce prudential requirement incentives (e.g. Sustanaible Finance Supporting Factor) for certain exposures identified by EBA because they are characterized by a reduced prospective risk due to their environmental sustainability in order to reduc the cost of loans to finance green assets or project or to refinance these loans. Prudential requirement incentives can be also fundamental to attract other investors as insurance companies. We also consider necessary to introduce tax incentives aimed to attract medium/long term investors as investment funds and to reduce the haircut for the ECB eligibility of green bonds. For non frequent issuers (e.g SME, banks) we consider necessary to introduce also grants to cover some costs of the issuance**

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 X

c. Do not know

Please specify the reasons for your answer. [**We don’t see any issues for public sector issuer in following the standard proposes by the TEG. There should be no differentiation among different type of issuers or sectors. The use of EU GBS for government bonds should be fostered.]**

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 **X**

Please specify the reasons for your answer. If possible, please provide estimates as to additional funds raised or current preferential funding conditions. **[At this stage it is hard to forecast the impact of GBS on funding availability and cost of financing. However, green bonds could hopefully increase the overall amount of funding available for green projects adding new channels to raise funds on the capital markets]**

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.

      [1] [2] [3] [4] **[5]**

   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.

      [1] [2] [3] [4] **[5]**

   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.

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

   d. Social bonds in general are mostly a marketing tool with limited impact on social objectives.

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

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

      [1] [2] [3] [4] **[5]**

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

   X

Please specify the reasons for your answer. **[We consider that social bonds and social bonds targeting COVID 19 markets have yet to grow. Consequently, no standardization action has to be introduced at this stage as it could represent a barrier for many issuers (especially small-medium enterprise) to enter this market]**

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).

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

Please explain what kind of financial incentives would be needed, if any. [**Please see the answer to Q. 14 above]**