DBG response to the Commission consultation on a Green Bond Standard

Questions on the EU Green Bond Standard

*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

Please specify what type of organisation you are, in relation to the green bond market:

5000 character(s) maximum)

Questions on the potential need for an official / formalised EU GBS

Q1. In your view, which of the problems mentioned below is negatively affecting the EU green bond market today? How important are they?

Please rate as follows: 1= no impact at all, 2= almost no impact, 3= some impact, 4= strong impact, 5= very strong impact

	1	2	3	4	5	Don't know/no opinion/not applicable
Absence of economic benefits associated with the issuance of green bonds				X		
Lack of available green projects and assets				X		
Uncertainty regarding green definitions			X			
Complexity of external review procedures			X			
Cost of the external review procedure(s)			X			
Costly and burdensome reporting processes				X		
Uncertainty with regards to the eligibility of certain types of assets (physical and financial) and expenditure (capital and operating expenditure)				X		
Lack of clarity concerning the practice for the tracking of proceeds				X		

	1	2	3	4	5	Don't know/no opinion/not applicable
Lack of transparency and comparability in the market for green bonds				X		
Doubts about the green quality of green bonds and risk of green washing					X	
Other						

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

(5000 character(s) maximum)

Q2. 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 rate as follows: 1= very negative impact, 2= rather negative impact, 3= no impact, 4= rather positive impact, 5= very positive impact

	1	2	3	4	5	Don't know/no opinion/not applicable
Absence of economic benefits associated with the issuance of green bonds			X			
Lack of available green projects and assets			X			
Uncertainty regarding green definitions					X	
Complexity of external review procedures			X			
Cost of the external review procedure(s)				X		
Costly and burdensome reporting processes			X			
Uncertainty with regards to the eligibility of certain types of assets (physical and financial) and expenditure (capital and operating expenditure)				X		
Lack of clarity concerning the practice for the tracking of proceeds				X		
Lack of transparency and comparability in the market for green bonds			X			
Doubts about the green quality of green bonds and risk of green washing				X		
Other						

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

(5000 character(s) maximum)

Q3. To what extent do you agree with the proposed core components of the EU GBS as recommended by the TEG?

Please rate as follows: 1= strongly disagree, 2= rather disagree, 3= neutral, 4= rather agree, 5= strongly agree

	1	2	3	4	5	Don't know/no opinion/not applicable

Alignment of eligible green projects with the EU Taxonomy				X		
Requirement to publish a Green Bond Framework before issuance			X			
Requirement to publish an annual allocation report					X	
Requirement to publish an environmental impact report at least once before final allocation			X			
Requirement to have the (final) allocation report and the Green Bond framework verified				X		

Q3.1 - Please specify the reasons for your answer to question 3:

(5000 character(s) maximum)

DBG fully supports the proposed EU Green Bond standards and believes the core components will ensure a robust framework that will enhance the green bond market in general to the benefit of both issuers and investors alike. In particular, we believe the verification process will result in a consistent approach being taken with respect to compliance with the required standards, and this will ensure the overall integrity of the framework. EU GBS should be comparable to existing international standards to allow an alignment of GB projects and a proper evaluation of green bonds from different jurisdictions.

The requirement to publish a Green Bond Framework before issuance or allocation and an impact report is well embraced by the issuers that follow best market practices. This will not represent a significant change for market participants. At the same time, final verification should increase reporting credibility. However, in some cases it might not be possible to publish a timely impact report and some specific alleviations should be provided to address this.

Q4. 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

Please explain why you disagree with the proposed content of the Green Bond Framework:

(5000 character(s) maximum)

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

Please explain why you disagree with the proposed content of the Green Bond Allocation Report:

(5000 character(s) maximum)

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

Please explain why you disagree with the proposed content of the Gren Bond Impact Report:

(5000 character(s) maximum)

Q5 - 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

Q5.1 - Please specify the reasons for your answer to question 5:

(5000 character(s) maximum)

In general, there should be a high level of ambition to addressing the specificities of verifiers. SPO providers have helped shape the market and demonstrated their ESG expertise. As non-financial rating agencies, their role should be recognised in the same way as the roles of traditional rating agencies and audit firms.

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

Q6 - 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)

95

Please explain why you would suggest that thresholds:

(5000 character(s) maximum)

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. However, if the issuers achieve using 85%-95% of the green bonds proceeds, this should be considered as sufficient in the first 3 year of GBS practices, but not a breach.

When applying the provisions of the EU Taxonomy to define project eligibility regarding the EU GBS, consistency between the project financed and the EU's long-term environmental objectives are ensured. Specially from a derivatives exchange perspective, it is important that EU GBS have clearly defined criteria and transparent standards on which exchange-traded derivatives contracts can rely on the information of the underlying, in this case the green bond. We understand that it is difficult to define a clear threshold recommendation for issuers to be compliant with the Taxonomy. We therefore agree with the TEG's proposal built on market practice, on which 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. However, some flexibility in the initial phase should be considered in order to create more opportunities for issuers to participate as the EU GBS is still in the development phase with subject to changes in the future and the issuers are new to and not as familiar with EU GBS practices. At the same time, a % range of flexibility should be clearly defined and limited to avoid green washing.

Furthermore, limiting the use of proceeds to only those projects that follow the Taxonomy would significantly lower the opportunities for many potential issuers. An alternative could be defining thresholds of certain % activities be aligned with the Taxonomy with the remaining % coming from activities that are not yet covered by this regulation.

We would envisage that clearly defined standards with a certain degree of flexibility can promote the development of the green bonds, and as a result, could serve derivatives exchanges in creating sustainable exchange derivatives contracts and ultimately create liquidity pols in which market participants can trade not only for investment purposes but also for their risk transfer.

Q6.1 - Please specify the reasons for your answer to question 6:

(5000 character(s) maximum)

In principle, we support the TEG's proposal by which an EU GBS aligned green bond should be fully aligned with the EU Taxonomy for its use of proceeds. This would allow legal certainty and trust in the market. However, bearing in mind the need to support transition activities and companies, we would be in favour of a more flexible approach, provided that it is clear the criterion or criteria for the remaining part of the use of proceeds which are not 100% aligned. We envisage that the DNSH test as defined by the EU Taxonomy could apply, i.e. the remaining part of the proceeds should be used in projects that meet the DNSH criteria as defined by the EU Taxonomy.

It should not be possible to label a bond as a green bond unless the use of proceeds are almost exclusively for 'Green' activities. Aligning as closely as possible with the Taxonomy ensures common understanding and definitions of those uses. However, if cannot be expected that the TEG has considered every possible eventuality sufficiently to allow no Flexibility with the use of proceeds.

Sometimes, especially in large granular portfolios of assets like green mortgages, some issues can be identified. Additional threshold for use of proceeds would provide issuers with a slight margin for eventual corrections.

Furthermore, the linkage between non-financial and financial figures could be further strengthen in this context by establishing a better connection between the publication of the use of proceeds and the prospectus documentation.

Finally, since the EU GBS does not request a look-back period for some expenditures or defines a concrete number of years, the traditional understanding of additionality might be changing. This is one of the fundamental ideas behind Green Bonds, meaning that they allocate money to new projects. In consequence, the balance sheet of the issuers becomes more sustainable. Lately, it can be observed that Green Bonds become a basic refinancing tool though, which means the issuers just searches onto its balance sheet to find eligible projects with 100% green use of proceeds. However, the EU GBS should be a tool to finance the transition towards a sustainable economy and society and distinguish itself from traditional forms of financing.

Q7 - 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

Q7.1 - Please specify the reasons for your answer to question 7:

(5000 character(s) maximum)

DBG supports the current technical screening criteria of the EU Taxonomy Regulation which appears to be very comprehensive. However, the pace of innovation and change within the Green Bond /ESG finance space over the past few years has been very rapid. In the circumstances outlined above, ahead of any possible recalibration / amendments to the TSC, it would seem prudent to allow very limited deviations from the technical screening criteria, providing verification with the above three points is confirmed. The work of the upcoming Platform on Sustainable Finance will be crucial to follow-up on innovation and changes within the ESG classification. It would be important to ensure an inclusive and transparent work of the Platform.

Environmental issues should be addressed as soon as possible, therefore, regulations cannot limit market development but are supposed to support it, especially in the field where a high level of innovation is required. This process should be supported by the independent verified assurance. Of course, it must be noted that in these cases part of the evaluation remains also on the investors' side.

The flexibility of the GBS in terms of complying to technical screening criteria is reasonable. Because it is listed clearly in the EU taxonomy that some economic activities do not yet have Taxonomy technical screening criteria. It has to be confirmed whether the external verifiers will be willing to take on this task.

In cases where the technical screening criteria have not yet been developed, verifiers should ensure the credibility of the EU GBS, based on the use-of-proceeds criteria. This of course, as long as the green projects assessed contribute to one of the 6 environmental objectives of the Taxonomy, and do not harm any of the other objectives and also meet the minimum safeguards detailed in this regulation.

It is of paramount importance to ensure a high level of standardization in the long run, as the more flexibility and exemptions from the standards are allowed over an extended period, the less credible the EU GBS will become. If it is a known fact that the screening criteria are not applicable, using the fundamentals of the Taxonomy seems a reasonable approach. In this case, it should be defined in the GBS framework and additional parameters could be included.

As mentioned before, the more clarity and standardization is applicable in the underlying asset, e.g green bonds, the more sustainability-focused contracts offered by exchanges can help develop liquidity pools to serve the sustainability-conscious market participants.

Q7.2 - 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

Q7.3 - If you do see any other reasons, please clearly specify the reason for your answer and, where applicable, the respective area or (taxonomy-defined) activity:

(5000 character(s) maximum)

Q8 - 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

Q8.1 - Please specify the reasons for your answer to question 8:

(5000 character(s) maximum)

We do not expect any major difficulties in practically applying the DNSH and minimum safeguards, but the Commission should monitor and assess how this will work in practice through the Platform on Sustainable Finance. DNSH and minimum safeguards are new concepts to the green bond market and will require the development of best practise in this area. Some first analyses conducted show that the due diligence process may be complicated and expensive. Because the accredited verifiers are working individually, responses can differ significantly. A grant scheme to offset the additional costs of external verification together with mandatory guidelines will help enforcing this requirement more effectively.

Q9 - 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

Q9.1 - If you do think the EU GBS should provide further guidance on these types of activities, please identity the relevant issues or incentives:

(5000 character(s) maximum)

The EU GBS should provide more specific guidance on these types of activities, as R&D is fundamental for certain investments and help to boost the amount of available eligible green projects. The more specified the criteria are, the better projects can be classified, allowing investors a comparable research to make investment decisions and support pricing of bonds in both first and secondary market. This is also important for reliable price discovery on derivatives exchanges who offer sustainable derivatives contracts for trading and rely on clarity and reliability of the underlying.

Q9.1 - Please specify the reasons for your answer to question 9:

(5000 character(s) maximum)

Questions on grandfathering and new investments

Q10 - 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

Q10.1 - If you are in favour of changes, please explain what changes should be made

5000 character(s) maximum)

Q10.1 - Please specify the reasons for your answer to question 10:

5000 character(s) maximum)

The standard already considers refinancing of green bonds. The proposed standard promotes comparability and high quality of disclosures for investors but financial incentives which are outside of the standard's scope should be further developed and implemented.

In the long run, the TEG's proposed standard should ensure a high level of standardization while allowing in the short term a certain degree of standardization. Overall, a binding nature of the prospectus and common reporting can also support the development of the green bond market, allowing the investors a comparable research to make investment decisions and support pricing of bonds in both first and secondary market.

Please see also our response to question 9.

Q11 - 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

Q11.1 - Please specify the reasons for your answer to question 11:

5000 character(s) maximum)

Ideally, EU Green Bonds should maintain their status for the entire term to maturity as it would give a clear guidance to the market and investors in determining their investment decisions, also considered by index providers, who may offer indices on green bonds. Besides, it should be equally clear and valid for all issuers. Alternatively, in case the EC would allow for grandfathering, it should be limited to a period of 3 years.

The reasoning for this recommendation is mainly based on pace of developments; if the 'greenness' of the bond would change, this could trigger a default in the bond which would, consequently, affect the derivatives contracts. In a fast-changing field where activities considered green today may be considered less green 3 years from now, due to scientific and political developments, this represents a considerable risk for any issuer. But this also would impact any secondary market offering, such as derivatives contracts on exchanges. To minimise such default risk of the bond, the issuer would most likely value the impact of the green bond at a lower level. However, issuers setting less ambitious goals could mean a slower and less effective transition towards a sustainable economy. Moreover, while a lot of attention is dedicated to greenwashing, it is important to also consider the reputational risk any issuer would face in overstating the greenness of their bonds

While this logic mainly demonstrates the impact on bonds and their issuers, the effects can also influence derivatives contracts and exchanges supporting the development of sustainable markets.

The above-mentioned argumentation should not be confused with the question if an activity would be considered harmful. In this case, the bond should not be considered green anymore as it would not be appropriate to continue benefiting from this label until the maturity date. However, we understand the question above specifically asks if projects or assets that they finance are no longer eligible under the recalibrated taxonomy. This is why we argue towards the eligibility of the green bonds should not change the status until the maturity.

Q11.2 - If you think there should some grandfathering, what should the maximum amount of years for it?

☒ 3 years

☐ 5 years

☐ 10 years

☐ 20 years

☐ Different approach all together

☐ Don't know / no opinion / not relevant

Q11.3 - Please explain different approach all together you would suggest:

(5000 character(s) maximum)

Since both the EU Taxonomy and the GBS are subject to changes and evolvement in the futures, the issuers need to be granted sufficient time to adjust and adapt to new regulations. This can cause less burdens on issuers and attract issuer to be more willing to issue green bonds. Hence, some grandfathering is necessary to consider new scientific knowledge or technical developments in the future and to ensure the economy's sustainable transition is on the right track. Nevertheless, there should be generous rules for future green bond issued as well as current green bonds under the ICMA GBS or CBI, which might be phased in the new EU GBS.

From our point of view, in case the EC decides to allow grandfathering for the status of the EU green bond, it should be limited to a 3-year period according to the interval on which the Taxonomy Regulation requires the EC to review the technical screening criteria for transitional activities. A limited grandfathering period would reduce the misalignment of green bonds with the most up-to-date taxonomy, keeping therefore the green bond market more standardized and reducing possible mispricing of the green bond, which is important for derivatives contracts that use the bond as a underlying.

In contrast, allowing for a longer grandfathering period, our concern would be that the number of green bonds that would be mostly green by name only increases, but would not comply with the most current taxonomy and therefore, would increase the risk of greenwashing, which represents a considerable risk for any issuer. For a derivatives exchange, this development would harm the growth of sustainable underlying assets and derivatives contracts.

Question on incentives

Q12 - 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 rate as follows: 1= No additional costs, 2= low extra cost, 3= extra cost, 4= high extra cost, 5= very high extra cost

	1	2	3	4	5	Don't know/no opinion/not applicable
Verification				X		
Reporting				X		
More internal planning and preparation				X		
Other				X		

Please specify what are the other elements of issuing green bonds you are referring to:

(5000 character(s) maximum)

For an issuer, extra costs are linked to the verification and reporting requirements, especially for the smaller issuers. An increase in labour resource will be required for this exercise. In addition, there will be more internal planning and preparation, R&D activities, which may also create extra costs for issuing a green bond.

Q12.1 - 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:

(5000 character(s) maximum)

Costs for issuing using the EU GBS varies depending on the nature of the issuer agents. For an issuer, extra costs are linked to the verification and reporting requirements, especially for the smaller issuers. An increase in labour resource will be required for this exercise. In addition, there will be more internal planning and preparation, R&D activities, which may also create extra costs for issuing a green bond

Q13 - 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

☐ 3 – Approximately the same

Q13.1 - Please specify the reasons for your answer to question 13:

(5000 character(s) maximum)

As the GBS are not yet widely used in practice, it remains to be seen how costs would be affected. In general, DBG is of the view that the EU GBS will result in increased costs as there will be more reporting requirements and the verification process may also lead to more expenses for the issuer.

Despite the fact that technical criteria are provided within the Taxonomy we can expect higher cost as there is no market practice concerning DNSH and social safeguards. Additional external verifications are also required compared to current best practices.

However, we believe that these potential additional costs will positively contribute to a more transparent green bond ecosystem, providing trust and legal certainty to market participants.

Q14 - 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 (issuers and/or investor)?

Please express your view on the potential impact:

Please rate as follows: 1= very low impact, 2= rather low impact, 3= a certain impact, 4= rather high impact, 5= very high impact

	1	2	3	4	5	Don't know/no opinion/not applicable
Public guarantee schemes provided at EU level, as e.g. InvestEU				X		
Alleviations from prudential requirements	X					
Other financial incentives or alternative incentives for investors				X		
Other incentives or alternative incentives for issuers?					X	

Q14.1 - Please specify the reasons for your answer to question 14, in particular if you indicated an important impact of "other incentives or alternative incentives":

(5000 character(s) maximum)

DBG generally supports the incentives proposed by the TEG EU GBS Report in its chapter five.
https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-green-bond-standard_en.pdf

Given the likely higher costs of issuing a green/social bond, but the obviously desirable circumstance, it would be advisable to offer issuers in particular an incentive to issue these kinds of instruments.

In current market conditions green issuance allows to build bigger demand as a result of broader investor base. As a consequence, spread can be tightened by around 2 bps. More incentives are required in order to build greater interest from the issuer side especially in the area of tax incentives. This also refers to the investor side. Investment limits should also be taken into account.

Issuers adhering to EU GBS should already benefit from a more attractive launch price due to a higher attractiveness of the bonds. However, public guarantee schemes at EU level, such as the InvestEU, may support an increased interest in issuing GBS as well. Another suggestion could encompass tax benefits for issuers when the bond is at maturity and its greenness and compliance can be substantiated with evidence.

On the other hand, some issuers prefer to launch conventional bonds rather than green bonds, even though the project that they finance with the issuance qualifies as green. This phenomenon could be attributed to higher costs related to the issuance process, on which the EU could be able to refund the cost difference in order to promote additional benefits of issuing EU green bonds. Also, the issuance of a green bond entails a continuous reporting of the "impact" of the financed green project on the environment. It is costly, especially to small and less sophisticated issuers, to create such a reporting process, which could be another reason for issuers avoiding green bonds. In order to alleviate, for example financing aspect for issuers, the EU already provides a platform to support initiatives, such as InvestEU, but also other similar platforms can be envisaged.

Measures to support the issuance of green bonds and their issuers, will promote the growth in this field, which ultimately can be accompanied with derivatives contracts offered by exchanges, who also focus on the development of a sustainable European product range.

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.

Q15 - 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

Q15.1 - Please explain your answer to question 15:

(5000 character(s) maximum)

There should be no separation among different categories of sectors or issuers as the purpose of GBS is to be globally relevant and accessible to issuers located in the EU as well as to issuers located outside the EU. We do not envisage any issues for the public sector to comply with the EU GBS, as the purpose of the green bonds is to be accessible for any type of issuer.

Q16 - 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

Q16.1 - Please explain your answer to question 16.

If possible, please provide estimates as to additional funds raised or current preferential funding conditions:

(5000 character(s) maximum)

In current market conditions, green issuance allows to build bigger demand as a result of a broader investor base. Depending on market conditions, green issuances allow to build a two times bigger order book compared to non-green one. As a consequence, spread can be tightened by around 2 bps.

It is envisaged that EU Green bonds could hopefully increase investors' willingness to engage in green finance and address the demand in the market for sustainable alternatives by adding new channels to raise funds on the capital markets and consequently, deploy also derivatives markets in a more meaningful way. From a derivatives exchange perspective, it is therefore of paramount importance to have a high level of standardization in the long run in order to attract issuers and investors in or outside the EU and implement standards to encourage sustainability-oriented channels for funding that allow the creation of deeply liquid risk transfer markets. Derivative exchanges contribute positively to this process already. For a derivative exchange, the key role is to design standardized specifications for derivatives contracts and setting operational trading standards, times of delivery that make derivative contracts conducive to centralized trading on an exchange. The ease with which market participants can execute and conclude transactions on such markets improves not only the liquidity of exchange traded derivatives but also contributes to the liquidity situation of the underlying asset. Via this process, derivatives can play an essential role to further improve green and sustainable markets, complementing capital markets with sustainable risk transfer markets.

Questions on Social Bonds and COVID19

Q17 - To what extent do you agree with the following statements?

Please rate as follows: 1= strongly disagree, 2= rather disagree, 3= neutral, 4= rather agree, 5= strongly agree

	1	2	3	4	5	Don't know/no opinion/not applicable
Social bonds are an important instrument for financial markets to achieve social objectives.				X		
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.				X		
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.		X				
Social bonds in general are mostly a marketing tool with limited impact on social objectives.		X				
Social bonds in general require greater transparency and market integrity if the market is to grow.				X		

Q18 - 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.

Please specify what other Commission action(s) is needed:

(5000 character(s) maximum)

The reason we suggest other action from the EC is that none of the options above include the combination of all the different standards and guidelines which we would support. To our understanding, the EC already publishes guidelines to support further evolution of sustainable investment financing for a variety of different objectives, not limiting to GBS and social bonds standards. We would recommend to the EC to continue publishing those guidelines.

In parallel, we encourage the EC to further develop the attempt to establish a reliable and liquid market for NGEU bonds, which could be a step into a new standard for the EU in the goal to provide a response to an economic crisis, such as COVID-19. We believe, the combination of these elements would further promote a comprehensive ESG framework. While focus often is on capital markets and financing aspects, we are convinced that also risk transfer markets, can further enhance this undertaking and complement a general financial markets approach.

Additionally, it is recommended that the EC observes progress in the field of sustainability continuously, in order to react more quickly to the developments of the sustainable market in Europe. The advent of the sustainability linked bonds and sustainability linked swaps, for example, could prompt the EC to look into these new markets and find common ground with participants in this sector to provide guidance on whether such instruments are aligned with the Taxonomy. To our view, all financial instruments can be eligible to foster sustainability, including derivatives contracts.

The EC should conduct research on market practice and the lessons learned regarding the usage of social bonds in the aftermath of the COVID-19 crisis. Based on this work, further steps should be taken. Avoiding “social washing” and using social bonds potential to fuel more investments in social projects is without any doubt necessary but needs a well-prepared approach. An Alignment with the EU Taxonomy is needed for example.

In addition to the aforementioned, as developments in this area is progressing fast, the EC, in principle, can mitigate the ever-changing developments with propositions that defy time but the EC would be advised to stay on track with developments, in case corrective measures would be required in this new field.

Q18.1 - Please explain your answer to question 18

(5000 character(s) maximum)

Ideally, leveraging the social bond principles already laid out, the EU should endorse this through an official standard.

Q19 - 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

Q19.1 - Please explain what kind of financial incentives would be needed:

(5000 character(s) maximum)

Financial incentives could take the form of income tax relief for investors, tax incentives for issuers, tax incentives for fund recipients of this mechanism, etc. In general, DBG believes that prudential regulation should not be used to stimulate certain market behaviour. Instead, prudential regulation should be risk-based.