

As a member of the Technical Expert Group (TEG)'s subgroup on the EU-Green Bond Standard (EU-GBS), WWF is very concerned about the lack of progress of the recent discussions on the EU-GBS and attempts, by certain stakeholders, to water down the level of ambition and to delay the implementation of the EU-GBS.

We think the EC should promptly proceed with a legislative proposal that not only enshrines the proposed EU-GBS in EU law but also provides for a comprehensive and consistent disclosure regime on taxonomy-alignment of 'use-of proceeds' of bonds and other debt-capital instruments for all companies who seek to access EU capital markets. We think that the ICMA Green Bond Principles (GBP) have successfully demonstrated that tracking of and reporting on 'use-of-proceeds' of bonds is technically feasible and yields important benefits for the transparency of financial markets without requiring a disproportionate administrative burden on issuing companies. Indeed, in the 3rd quarter of 2020 almost 14% of all bonds issued in European debt capital markets were issued as 'use-of-proceeds' type instruments. WWF believes that the time is now ripe to apply the concept of 'use-of-proceeds to all types of bonds, not only those labelled as green, social or sustainable, because 86% of the European debt-capital market still go unaccounted for and provide no information on the instruments' alignment with European environmental policy goals nor the EU taxonomy.

Some may argue that setting additional requirements for all types of debt instruments, including bonds will be burdensome, disproportionate and will impede the developments of European bond market overall. In our view, these additional requirements are inevitable to create a "new level playing field" in bond markets by expanding the "burden of proof" to all types of financial instruments, not only those labeled as green. The ambitious EU environmental targets can only be met if all stakeholder, including bond market participants, are requested to transparently report on the contribution they make to furthering these important environmental goals (or, at least, formally acknowledge the absence thereof).

Rather than seeking to put in place specific incentives for green bonds, which might have unintended side-effects (e.g., risk of 'asset bubbles') it is also critically important to avoid that green bonds continue to be subject to an unfair disclosure burden compared to plain vanilla bonds. This is why we are proposing that the EC should introduce a new, ambitious disclosure regime for all bonds: disclosure of the proportion of use of proceeds that is aligned with the EU taxonomy, in the same way the EU Taxonomy Regulation mandates disclosures for all financial products (i.e., with an option to use a disclaimer).

In addition, the EC may consider making disclosure of the Climate-related Green Bond Ratio and Climate-related Green Debt Ratio mandatory. These ratios provide information on the taxonomy-alignment of debt outstanding at entity level and show how companies' low-carbon transition plans are supported by debt financing activities and how capital is raised for existing and new projects with climate benefits.

As a result, we would recommend the EC legislative approach should **apply the logic of the EU Taxonomy Regulation to also include debt-capital instruments, not only financial products**. The EC legislative proposal on the EU-GBS should expand the scope and logic of the EU Taxonomy Regulation to cover debt-capital instruments (such as bonds and other debt capital instruments), not only financial products. Such a legislative proposal should include the following elements:

- **Transparency of environmentally sustainable investments in the pre-contractual disclosures) and in periodic reports for all debt-capital instruments, including bonds**. More specifically, WWF thinks that all issuers of debt-capital instruments (including bonds) on

European debt capital markets (including corporate, sovereign and sub-sovereign issuers) -- whether marketed as 'environmentally sustainable or not -- should be required to disclose, at issuance, how and to what extent the funds raised will be invested in economic activities that qualify as environmentally sustainable (i.e. % of alignment of use-of-proceeds of the bonds with the EU taxonomy). This is particularly relevant for certain types of issuers for which the transparency rules for large undertakings at entity level do not apply or are not relevant (i.e. sovereign or sub-sovereign public sector issuers for which information such as taxonomy-alignment of revenues is either irrelevant or impossible to compile). We also think that an additional benefit of this disclosure regime would be to provide a coherent disclosure structure for further market innovations (e.g. ICMA market guidance on Sustainability-linked Bonds and/or the recently announced 'climate-transition finance labels) and thereby ensure that these market innovations take place within, and not outside the rules set by the investment framework provided by the EU Taxonomy Regulation (e.g., sustainability-linked instruments tied to a forward-looking commitment to improve the entity's alignment with the EU taxonomy).

- **To date, this type of targeted disclosure of use-of-proceeds is not required, despite its importance.** The final Taxonomy Regulation, which sets a new level-playing field for disclosures by all European companies that are subject to NFRD, provides the foundation for a comprehensive and consistent framework of taxonomy-related disclosures by a large number of companies that access European capital markets. Indeed under Article 8 (i.e., Transparency of undertakings in non-financial statements) of the Taxonomy Regulation, NFRD companies are now required to report on taxonomy-related revenues, capital- and operational expenditures, and for these companies disclosure at bond level is easily feasible and proportionate. However, free-riding by some companies is still possible as some companies that issue bonds in the EU debt capital markets that are not subject to disclosure under the NFRD and don't have to disclose any taxonomy-related information. **The EC should close this loophole to make the disclosure regime comprehensive and consistent.** This would not only facilitate the tasks of financial market participants that make available financial products that contain debt capital instruments (e.g., fixed-income funds that include bonds as major components) to meet their respective reporting requirements on taxonomy-alignment (under in Article 6 and 7 of the Taxonomy Regulation), but also facilitate the design of the future EU eco-label for fixed income funds (ie. bond funds) as it would provide comprehensive and comparable information on use-of-proceeds for all companies, in particular so-called 'pure-play' companies that only issue green bonds in very few cases and which would be excluded to a certain extent under the rules currently considered by the JRC for the EU Eco-label for financial products.
- **Opt-out 'disclaimer' option for debt-capital instruments that are not marketed as environmentally friendly.** Such a disclosure regime would mean that so-called 'plain vanilla' bonds, not-marketed as 'environmentally sustainable, nor 'green' and that do not apply the EU-GBS nor the taxonomy should still be required to either (a) disclose the % of use-of-proceeds that is aligned with the EU taxonomy or (b) carry a clear disclaimer, similar to the one for financial products in article 7 of the Taxonomy Regulation, that confirms that: *'the investments underlying this [financial product] do not take into account the EU criteria for environmentally sustainable economic activities'*. These disclosures should be subject to confirmation in an allocation report as well as independent verification in the same way as

envisaged in the proposed EU Green Bond Standard, so as to establish a level playing field with issuers marketing their securities as 'green'.

- **EU-Green Bond Standard (EU-GBS) - a tool for issuers to easily demonstrate full alignment (100%) with the EU-taxonomy.** An EC legislative proposal should also establish the voluntary EU Green Bond Standard proposed by the TEG that would enable issuers to demonstrate full alignment (i.e., 100% of the use-of-proceeds) of their bond with the EU Taxonomy. Such a legislative proposal should be based, to the largest extent possible, on the proposals made by the TEG. The legislative proposal should define the fundamental principles of the standard at level 1 and empower the EC, in close cooperation with the ESAs, to define the regulatory technical standards (RTS). In addition to the proposal developed by the TEG, the EU-GBS allocation report of the bond should include full, mandatory disclosure of the % of use-of-proceed aligned with the taxonomy, also *“including details on the proportions of enabling and transitional activities [...] respectively, as a percentage of the total amount of use-of-proceeds”* -- mirroring the requirement under Art 8 of the Taxonomy Regulation -- so as to enable manufacturers of financial products to collect relevant data to meet their own disclosure obligations.
- **Consider incentivising issuers to explain their sustainability strategy and trajectory by making forward-looking voluntary commitments on taxonomy-alignment.** Private-sector initiatives such as the Science-based Targets Initiative (SBTi) have proven a powerful tool for companies to communicate forward-looking targets on their trajectory to reach an alignment with climate goals. In the same way, the future EU disclosure-regime for taxonomy-related information should incentivise companies to report on standardised, forward-looking data on their future alignment with the EU taxonomy (e.g., X% of revenues aligned with the EU taxonomy by 2025; Y% by 2030).
- **Provide a clear mandate for ESMA to set up a comprehensive regime for registration and supervision of external verifiers.** In our view, a key requirement for ensuring the effectiveness and credibility of the EU-GBS, and related disclosures of use-of-proceeds is to create an ecosystem of external advisors, data providers and verifiers that are registered and supervised in a centralised way by ESMA. Such a scheme would enhance market confidence, streamline verification procedures, avoid duplication of effort and, ultimately, reduce the costs of external reviews not only for green bond markets, but also for in other types of emerging debt instruments, including (but not limited to) climate-transition bonds and loans, and/or sustainability-linked loans and bonds. Such an ecosystem of skilled verifiers (but also advisors, data-providers and non-financial rating agencies) supervised by ESMA, will also help support the development of other types of potential voluntary applications of the EU taxonomy. Last but not least, it could also promote a robust implementation of the EU-taxonomy through other types of advisory, compliance and assurance services resulting from taxonomy-related disclosures by companies and investors in the future. **One way to fast-track the implementation of such a legislative proposal would be to anchor the EU-GBS in an EU legislative text – for example the Prospectus regulation**, as already discussed in the HLEG and in the TEG, or the proposal for updated rules of non-financial disclosures by large companies, currently under discussion.
- **A private-sector led initiative can help bridge a transition period but EC leadership is needed to chart the course of action.** In this context, we believe that the EU co-legislators need to chart the course through legislative action to secure effective and credible standards and to ensure that robust reliable taxonomy-related information becomes available. Of

course, we support the TEG's proposal for a market-led initiative to allow for early adoption of the EU-GBS by market participants during the transition period until the taxonomy is fully developed and enters into application in 2022.

Last but not least, the European Commission (and all EU institutions issuing bonds) should be 'practicing what they preach' and apply the EU-GBS for their own issuances of bonds'. We also recognise that the EC (and other EU institutions including the European Investment Bank, the European Stability Mechanism, etc.) can play the critical role through the recent announcement that *"30% of the €750 billion NextGenerationEU budget will be raised through green bonds"*, which sends a very positive signal to the market. When issuing bonds to refinance the recovery package, the EC should, however, issue green and resilience bonds that comply in full with the requirements of the proposed EU Green Bond Standard (EU-GBS) to ensure that the money is used by Member States and the EC in a way that is aligned with the EU taxonomy and contributes to achieving the EU Green Deal. Any reference to any other, less ambitious market standard by any EU institution, could prove extremely counterproductive and undermine the credibility of the EU-GBS as the standard of choice for private and public issuers of bonds.