Targeted consultation on the establishment of an EU Green Bond Standard

Fields marked with * are mandatory.

Introduction

This consultation is also available in **German** and **French**.

Diese Konsultation ist auch auf **Englisch** und **Französisch** verfügbar.

Cette consultation est également disponible en **allemand** et en **anglais**.

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 COVID-19.

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.

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-eu-green-bond-standard@ec.europa.eu.

More information:

- on this consultation
- on the consultation document
- on the inception impact assessment
- on EU Green Bonds Standard
- on the protection of personal data regime for this consultation

About you

*Language of my contribution

- Bulgarian
- Croatian
- Czech
- Danish
- Dutch
- English (selected)
- Estonian
- Finnish
- French
- Gaelic
- German
- Greek
- Hungarian
- Italian
- Latvian
- Lithuanian
- Maltese
- Polish
- Portuguese
- Romanian
- Slovak
- Slovenian
- Spanish
- Swedish

*I am giving my contribution as

- Academic/research institution
- EU citizen
- Public authority
- Business association (selected)
- Environmental organisation
- Trade union
- Company/business organisation
- Non-EU citizen
- Other

Consumer organisation

Non-governmental organisation (NGO)

* First name

Farid

* Surname

Aliyev

* Email (this won't be published)

farid.aliyev@eapb.eu

* Organisation name

255 character(s) maximum

European Association of Public Banks (EAPB)

* Organisation size

- Micro (1 to 9 employees) (selected)
- Small (10 to 49 employees)
- Medium (50 to 249 employees)
- Large (250 or more)

Transparency register number

255 character(s) maximum

Check if your organisation is on the transparency register. It's a voluntary database for organisations seeking to influence EU decision-making.

8754829960-32

* Country of origin

Please add your country of origin, or that of your organisation.

Afghanistan	Djibouti	Libya	Saint Martin
Åland Islands	Dominica	Liechtenstein	Saint Pierre and Miquelon

- Albania
- Algeria
- American Samoa
- Andorra
- Angola
- Anguilla
- Antarctica
- Antigua and Barbuda
- Argentina
- Armenia
- Aruba
- Australia
- Austria
- Azerbaijan
- Bahamas
- Bahrain
- Bangladesh
- Barbados
- Belarus
- Belgium
- Belize
- Benin
- Bermuda
- Dominican Republic
- Ecuador
- Egypt
- El Salvador
- Equatorial Guinea
- Eritrea
- Estonia
- Eswatini
- Ethiopia
- Falkland Islands
- Faroe Islands
- Fiji
- Finland
- France
- French Guiana
- French Polynesia
- French Southern and Antarctic Lands
- Gabon
- Georgia
- Germany
- Ghana
- Gibraltar
- Greece
- Lithuania
- Luxembourg
- Macau
- Madagascar
- Malawi
- Malaysia
- Maldives
- Mali
- Malta
- Marshall Islands
- Martinique
- Mauritania
- Mauritius
- Mayotte
- Mexico
- Micronesia
- Moldova
- Monaco
- Mongolia
- Montenegro
- Montserrat
- Morocco
- Mozambique
- Saint Vincent and the Grenadines
- Samoa
- San Marino
- São Tomé and Príncipe
- Saudi Arabia
- Senegal
- Serbia
- Seychelles
- Sierra Leone
- Singapore
- Sint Maarten
- Slovakia
- Slovenia
- Solomon Islands
- Somalia
- South Africa
- South Georgia and the South Sandwich Islands
- South Korea
- South Sudan
- Spain
- Sri Lanka
- Sudan
- Suriname

- Bhutan
- Bolivia
- Bonaire Saint Eustatius and Saba
- Bosnia and Herzegovina
- Botswana
- Bouvet Island
- Brazil
- British Indian Ocean Territory
- British Virgin Islands
- Brunei
- Bulgaria
- Burkina Faso
- Burundi
- Cambodia
- Cameroon
- Canada
- Cape Verde
- Cayman Islands
- Central African Republic
- Chad
- Chile

- Greenland
- Grenada
- Guadeloupe
- Guam
- Guatemala
- Guernsey
- Guinea
- Guinea-Bissau
- Guyana
- Haiti
- Heard Island and McDonald Islands
- Honduras
- Hong Kong
- Hungary
- Iceland
- India
- Indonesia
- Iran
- Iraq
- Ireland
- Isle of Man

- Myanmar /Burma
- Namibia
- Nauru
- Nepal
- Netherlands
- New Caledonia
- New Zealand
- Nicaragua
- Niger
- Nigeria
- Niue
- Norfolk Island
- Northern Mariana Islands
- North Korea
- North Macedonia
- Norway
- Oman
- Pakistan
- Palau
- Palestine
- Panama

- Svalbard and Jan Mayen
- Sweden
- Switzerland
- Syria
- Taiwan
- Tajikistan
- Tanzania
- Thailand
- The Gambia
- Timor-Leste
- Togo
- Tokelau
- Tonga
- Trinidad and Tobago
- Tunisia
- Turkey
- Turkmenistan
- Turks and Caicos Islands
- Tuvalu
- Uganda
- Ukraine

- China
- Christmas Island
- Clipperton
- Cocos (Keeling) Islands
- Colombia
- Comoros
- Congo
- Cook Islands
- Costa Rica
- Côte d’Ivoire
- Croatia
- Cuba
- Curaçao
- Cyprus
- Czechia
- Democratic Republic of the Congo
- Denmark
- Israel
- Italy
- Jamaica
- Japan
- Jersey
- Jordan
- Kazakhstan
- Kenya
- Kiribati
- Kosovo
- Kuwait
- Kyrgyzstan
- Laos
- Latvia
- Lebanon
- Lesotho
- Liberia
- Papua New Guinea
- Paraguay
- Peru
- Philippines
- Pitcairn Islands
- Poland
- Portugal
- Puerto Rico
- Qatar
- Réunion
- Romania
- Russia
- Rwanda
- Saint Barthélemy
- Saint Helena Ascension and Tristan da Cunha
- Saint Kitts and Nevis
- Saint Lucia
- United Arab Emirates
- United Kingdom
- United States
- United States Minor Outlying Islands
- Uruguay
- US Virgin Islands
- Uzbekistan
- Vanuatu
- Vatican City
- Venezuela
- Vietnam
- Wallis and Futuna
- Western Sahara
- Yemen
- Zambia
- Zimbabwe

* Field of activity or sector (if applicable):

at least 1 choice(s)

- [ ] Accounting
- [ ] Auditing
- [x] Banking

- [ ] Credit rating agencies
- [ ] Insurance
- [ ] Pension provision
- [ ] Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- [ ] Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)
- [ ] Social entrepreneurship
- [ ] Other
- [ ] Not applicable

* Publication privacy settings

The Commission will publish the responses to this public consultation. You can choose whether you would like your details to be made public or to remain anonymous.

- ( ) **Anonymous**
  Only your type of respondent, country of origin and contribution will be published. All other personal details (name, organisation name and size, transparency register number) will not be published.
- (•) **Public**
  Your personal details (name, organisation name and size, transparency register number, country of origin) will be published with your contribution.

- [x] I agree with the personal data protection provisions

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
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 1:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The small size of many green projects or potential issuers that cannot be financed by bonds (lack of aggregation tools or lack of tracking green loans by banks that could issue green asset-backed securities to refinance them). Another issue is the fact that new green assets (e.g. small wind/solar power infrastructures) are not considered by the European regulatory framework. This is particularly true for the CRR, the eligibility of assets as collateral to the ECB and the calculation of the liquidity coverage ratio. More precisely, the lack of eligibility of underlying “green” assets to ABS/covered bonds is a problematic matter.

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 positive impact)	Don't know - No opinion - Not applicable
Absence of economic benefits associated with the issuance of green bonds	○	○	◉	○	○	○
Lack of available green projects and assets	○	◉	○	○	○	○
Uncertainty regarding green definitions	○	○	○	◉	○	○
Complexity of external review procedures	○	◉	○	○	○	○
Cost of the external review procedure(s)	○	◉	○	○	○	○
Costly and burdensome reporting processes	○	◉	○	○	○	○
Uncertainty with regards to the eligibility of certain types of assets (physical and financial) and expenditure (capital and operating expenditure)	○	○	○	◉	○	○
Lack of clarity concerning the practice for the tracking of proceeds	○	○	◉	○	○	○
Lack of transparency and comparability in the market for green bonds	○	○	○	◉	○	○
Doubts about the green quality of green bonds and risk of green washing	○	○	○	○	◉	○

Other	○	○	○	○	○	○

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:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Due to the lack of a sufficient number of projects to be financed that would meet the requirements of the EU GBS, EAPB finds it important that green bonds that refer to other standards, and in particular the ICMA Green Bond standard, are still welcome in the market.

Regarding the link to the EU Taxonomy, EAPB would like to stress the importance of specifying that assets /projects need to be verified as aligned with the EU Taxonomy once, upon inclusion in the Eligible Assets pool/portfolio. As EAPB understands the EU GBS as drafted, the notion of grandfathering seems to be limited to bonds and does not appear to be applicable to the underlying assets. Underlying assets appear to be subject to re-evaluation whenever a new bond is issued. This would be difficult to apply to a dynamic portfolio of projects, especially where the lifetime of underlying assets exceeds that of the bond. This would add a significant burden for the issuer, especially for issuers financing a multitude of small-scale investments, as well as a lack of predictability for the project owners. EAPB strongly recommends that grandfathering on project level be allowed in order to keep up the volumes in the green bond market, as 60+% of the green bond volume issued by European issuers so far has been based on the portfolio approach as opposed to pairing assets back-to-back with bonds. See more detailed comments in the response to question 11.

Another key challenge with the portfolio approach is the following: It is unclear what “full allocation” in the EU GBS means from a portfolio approach issuer's point of view, as the project portfolio changes over time and green bonds are not linked to individual projects. If a "full allocation" verification report is required from an issuer that applies the portfolio approach, how many times must such a verification be done as the portfolio is dynamic? The EU should consider the high cost of e.g. an annual verification of the allocation report in the case of an issuer who applies the portfolio approach.

An external verification of the final allocation report should be a recommendation and not a requirement. The use of external verification of the final allocation report is not necessary and will increase costs significantly for the issuer. Some EAPB members already have an external Evaluation Team responsible for project approval and a third-party consultancy company, which calculates the ex-ante quantitative impacts for the environmental impact report. The current market standard does not require verification of the final allocation report. The added value of allocation report verification is very little as projects must already be listed in the allocation report and possible misuse will be detected by market participants.

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

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

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

EAPB finds it hard to ‘agree’ or ‘disagree’ with the proposed content of the different elements of the EU GBS on a general level, as we agree with the intentions of each of the elements but have reservations against some features, as described in this consultation response.

As a general caveat, EAPB has a few concerns regarding components of the EU GBS e.g. the portfolio approach of issuers should be taken into consideration. Regarding the Impact Report specifically, the EU GBS requires that the share of financing (i.e., the number of Green Projects financed after the bond issuance) and refinancing (i.e., the number of Green Projects financed before the bond issuance) be included in the Impact Report. Does this refer to committed/granted or disbursed amounts? For example, a loan may have been granted before issuance of the bond, however the loan will be disbursed after issuance. Which definition should issuers use in order to calculate the share financed and refinanced?

Also, financing or refinancing may not in all cases indicate the newness of a project. For example, a loan may have been disbursed before issuance, however the project is a new one e.g. the construction of a new building that has just started. It would be advisable to include the projects' age in the allocation and impact reports as an alternative metric. This metric would be more useful in determining how old or new the projects are which are financed by the bonds.

b) The Green Bond Allocation Report:

- Yes, I do agree with the proposed content of the Green Bond Allocation Report
- (x) 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
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Please see answer to 4.a

c) The Green Bond Impact Report:

- ( ) Yes, I do agree with the proposed content of the Green Bond Impact Report
- (x) 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 Green Bond Impact Report:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> Please see answer to 4.a

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?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

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

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

> It could be that verifiers will be faced with larger risks as opposed to when they gave second opinions. Verifiers will, for example, verify alignment with the taxonomy including the extensive DNSH due diligence.

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

80 %

Please explain why you would suggest that thresholds:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

In principle, EAPB supports a 100% taxonomy conformity (6. a), but since there is no possibility to comment on 6.a, we decided on 6. b. on the condition that until the taxonomy is fully put in concrete terms and is implemented, a certain flexibility should be allowed for a transitional period. Having an existing portfolio of green assets verified as EU Taxonomy compliant will take time. Hence, in an early phase some flexibility should be allowed, which is especially relevant for sustainable activities for which technical screening criteria (TSC) have not yet been developed.

80%-90% alignment would help in the following situations: 1) This flexibility would assist in the beginning when issuers are aligning their portfolios to the taxonomy. 2) For sectors where technical screening criteria have not yet been determined, a lower threshold for those sectors would allow for flexibility and the assets would not need to be removed from the portfolio, if/when technical screening criteria are later on created. 3) For issuers that apply a portfolio approach, if a grandfathering of underlying assets is taken on board, then the threshold can be 100% aligned with the taxonomy after the beginning. However, if grandfathering of underlying assets/projects is not taken on board in the EU GBS, then a lower threshold of alignment with the taxonomy e.g. 80%-90% would be needed to accommodate issuers with a portfolio approach, so that at least some grandfathering of assets/projects can take place. 4) A part of the net proceeds from green bonds may sometimes be placed into a liquidity portfolio before being allocated to green projects, as there may not be available projects to allocate to immediately. Will the taxonomy alignment need to apply to the liquidity portfolio too i.e. can net proceeds from EU Green bonds be invested in non-EU Green bonds for this temporary period?

In addition, the DNSH-criteria could become very expensive to verify compliance with, if going beyond national or EU legislation. Moreover, the Taxonomy has not dealt with all activities that can be of substantial environmental benefit, such as efficient waste-to-energy, for waste that cannot be recycled due to material fatigue, contamination and complex materials and under conditions encouraging increased sorting. The alternatives often involve substantial pollution and less control of waste streams.

Non-EU issuers are also likely to struggle with the implementation of some of the TSCs, particularly the DNSH criteria. Issuers outside the Union may struggle to formally classify projects as green, even though they in reality are - due to issues such as mismatch between thresholds and reporting metrics in the taxonomy and national legislation/reporting standards. Finding relevant proxies is not always straightforward. In an early phase, some flexibility should therefore be granted, in order not to strangle the market while waiting for it to re-establish in line with the Taxonomy.

Another question that needs clarification is the following: When starting to issue EU green bonds should an issuer following portfolio approach assess the whole existing portfolio of projects/assets and verify that the existing projects/assets are 100% Taxonomy aligned?

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

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

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?

- (x) 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:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

EAPB agrees with the approach, considering that it will take time for the Taxonomy to be 'complete' and even then, sustainable activities will be a moving target.

EAPB recommends that the involvement of external verifiers be limited to the verification of an issuer's eligibility criteria for such projects or assets, and not the assets themselves, as that would increase verification costs.

It is important that also projects where technical screening criteria have not yet been developed can be financed with green bonds, as there are still several environmental objectives that are not covered yet by the taxonomy. However, when technical screening criteria are developed, should the issuer reassess the project and if not aligned anymore with the new technical screening criteria remove it from the project portfolio (issuers applying a portfolio approach)? EAPB argues that this would be destabilizing to the market. Once a project has been approved to the project portfolio and is aligned with the taxonomy valid at the time of approval, the project should stay in the project portfolio until maturity of the loan or lease that finances the project.

Other reasons to deviate from technical screening criteria: Sometimes with life cycle analysis it can be shown that a project is green e.g. the building material is innovative, however it misses slightly the exact criteria set out in the taxonomy e.g. the energy performance score for new buildings. For these cases, there should be a process by which the project can be included in the eligible project portfolio nonetheless and be deemed taxonomy-aligned. This could happen, for example, via the verifier verifying the eligibility criteria for such projects.

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?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

Question 7.3 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
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Please see answer to 7.1

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?

- (selected) 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

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

EAPB understands why the DNSH requirements have been created, however we would require a further guidance on how to operationalize them in a green bond context. Impact reporting on green bonds on an ex ante basis is today commonly accepted, and this position is also taken by the TEG in the documents related to the EU GBS. Many of the DNSH criteria however refers to information that can hardly be obtained on an ex ante basis. Introducing ex post reporting as a requirement for green bond issuers will sharply increase cost, and hence reduce the appetite to issue EU Green Bonds. The EAPB recommends that only ex-ante assessment of DNSH should be required.

While EAPB appreciates the due diligence approach to DNSH that is presented in the Usability Guide, we do not see how all the DNSH criteria are fit to assess from a procedural perspective, both concerning the level and timing of such an assessment. Therefore, a more detailed guide on how to implement the DNSH in practice is needed otherwise it will most likely create barriers to market entry. Moreover, EAPB suggests revisiting the individual DNSH Criteria from a cost/benefit point of view. Particularly the criteria that may not be ‘ticked’ based on the existence of relevant regulation will lead to an increase in issuers' as well as verifiers' liability risk as well as in costs.

Even though guidance provided by TEG is helpful and might be useful for large scale projects, issuers of green bonds financing SME or retail clients will face problems especially with regards to the applicability of specific DNSH and Minimum Safeguards criteria (e.g. DNSH criteria for adaptation in general, material recovery requirements for the building sector), but also with respect to data availability, IT-systems etc. The need for an individual check of the DNSH and Minimum Safeguards for smaller projects (below EUR 10m), even if the Minimum Safeguards can be checked on company level, would bear high additional costs. Consequently, market conditions might become completely unattractive and therefore hinder further growth for green financings within the SME and retail area. Therefore, it is absolutely necessary that smaller projects refinanced with green bonds can rely on permits and authorisations granted by public authorities in accordance with existing laws and regulations within the EU. Additional line-by-line checks as required by the EU Taxonomy are obsolete in our opinion.

One of the main difficulties regarding the practical application of the DNSH eligibility analysis consists in the availability/sufficiency of internal resources with pertinent technical skills. The existing internal processes of due diligence and risk assessment would have to be revisited promptly in order to adapt these procedures to the new requirements. In any case, the DNSH will generate a greater need for justifications, which will create cumbersome reporting on the underlying assets.

In addition, for non-EU issuers, many metrics and regulations are unfamiliar to both credit institutions and the project owners. It is therefore vital that the use of national proxies is accepted, and that compliance with certain DNSH criteria can be evaluated on an industry rather than project level, following a due diligence approach.

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?

- (x) 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 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
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Clarifications should probably not be subject to the EU GBS but to delegated legislation complementing the Taxonomy Regulation. The specific definition of the R&D fields eligible for the green bond financing would be useful to avoid potentially “grey areas” in terms of interpreting their scope as contributing or not to green technologies (electric batteries, for example). The other aspect that would require some clarification is to what extent the potentially eligible R&D should be dedicated directly and fully to a new/enhanced green technology (vs. targeting it indirectly or partially).

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?

- (x)

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

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Several changes should be made to the TEG’s proposed standard:

The EAPB sees a serious issue with regard to grandfathering, in case grandfathering on project level is not permitted. See more detailed comments in the response to question 11.

EAPB also suggests that pre-issuance verification of the GBF should be mandatory, but the final allocation report verification should be made voluntary. Allocation report verification adds significant costs to issuance and creates barriers to entry. Investors in the market have not vocally required an allocation report verification until now and as making the allocation report public is mandatory, misuse can be detected by market actors.

The DNSH assessment is challenging, unclear andcostly. A more practical guide of how assessment procedures can be implemented would be needed.. The DNSH may increase issuers' as well as verifiers' liability risks.

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?

- [x] 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:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

As proposed by the TEG, EAPB strongly supports grandfathering for the entire term to maturity of the bond. If no grandfathering is granted, investors with dedicated green bond mandates will be forced to sell their EU Green Bonds if they do not qualify any longer. This would impact the attractiveness of green bonds and the willingness especially of funds to invest in EU Green Bonds.

The EU GBS draft suggests allowing for ‘grandfathering’ of green bonds, meaning an EU Green Bond remains an EU Green Bond throughout the lifetime of the bond even if the criteria in the Taxonomy are adjusted during the lifetime of the bond. While EAPB agrees this pragmatic approach where the ‘greenness’ of a bond is decided once, we are concerned by the fact that a similar notion of grandfathering does not appear to be explicitly applicable to the underlying assets. This means, whenever a new bond is to be issued, the underlying assets would need to be aligned with the then-current Taxonomy. This would be difficult to apply to a dynamic portfolio of projects, especially where the lifetime of underlying assets exceeds that of the bond. In practice, EAPB does not see a way of solving this without departing from the portfolio approach (i.e. a pool of green bonds finances a portfolio of eligible green projects), or re-assessing the entire underlying project portfolio for every bond issuance. In either situation, this adds a significant burden for the issuer, especially for issuers financing a multitude of small-scale investments, as well as a lack of predictability for the project owners. In other words, for a portfolio-based issuer there is little help in grandfathering bonds while not grandfathering the underlying portfolio.

As a rough estimate, 60+% of the green bond volume issued by European issuers so far has been based on the portfolio approach. Nonetheless, it seems that the EU GBS is constructed to fit a bond-by-bond approach only. The portfolio approach has proven the most feasible one to issuers who use green bonds to finance amortizing loans for green projects, as linking individual fixed-size bonds to a decreasing body of lending for specific projects is challenging.

Public banks issue green bonds to finance long-dated green loans and leases and apply a margin discount. This incentive for the clients – project owners – is an important motivation for them to engage in sustainable investments. If an approved green project cannot be financed with green bonds until the loan or lease matures, and the financier subsequently need to finance the same loan or lease with a less attractive and perhaps unfavorably priced non-green bond, they will be stuck with a “stranded” green asset on their balance sheet. This will clearly affect the issuers’ appetite for granting margin discounts. Should the EU GBS remain as drafted, EAPB members foresee a shift towards shorter-dated green financing offered by institutions as a way of removing the risk of ‘stranded green assets’ from their balance sheets. Such a shift will likely translate into fewer green investments in the real economy, as the uncertainty is then transferred to the project owners. Eventually, this will lead to a slower growth in the green bond market. This feature of the drafted EU GBS provides an unfounded advantage to issuers with a) a bond-by-bond approach where assets are paired back-to-back with bonds, and/or b) larger and longer-dated bonds, regardless of the nature of underlying assets.

EAPB finds this approach to be deviating from the European Commission’s Action Plans and the Green Deal, which clearly state that empowering a green transition in the European real economy is indeed the main objective of the sustainable finance initiatives.

EAPB strongly recommends that the EU GBS be amended to allow grandfathering, i.e. that projects once approved under a previous taxonomy can remain in the portfolio until maturity, also for the underlying assets that motivate the green bonds in the first place. In addition, it is unclear what “full allocation” in the EU GBS means from a portfolio approach point of view, as the project portfolio changes over time.¬¬ In general, EAPB recommends that the entire EU GBS be reviewed in light of the portfolio approach that is assumed to be applied by the majority of green bond issuers, making sure that the Standard can be applied also to the large amount of green bonds that are to be issued by these issuers in the future.

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' No c app
Verification	○	○	○	●	○	
Reporting	○	○	○	○	●	
More internal planning and preparation	○	○	○	○	●	
Other	○	○	○	○	●	

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

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

See answer to 12.1

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:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Setting up a Green Bond programme in the current market already requires significant internal process amendments, creation of new processes as well as additional planning and coordinating. Additionally, the second opinion and impact reporting (collecting data and calculations) is a significant workload. Impact reporting is costly and requires dedicated resources.

The additional costs vary dependent on the issued volume and the underlying documentation. But the extra costs emerge especially due to increased expenditure on: acquiring staff for processing green loan applications and procuring necessary technical systems, checking the underlying loan pools, quality assurance, reporting on sustainable performance, research on KPIs, data management etc. and the additional capacities tied to these activities.

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:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Increased costs would result from: setting up the GBF according to the EU GBS (taxonomy); setting up extensive internal due diligence processes regarding DNSH; cost of framework verification, which will be costlier than a second-opinion currently due to increased liability risks borne by the verifier; cost of external verification of allocation report; if grandfathering of assets is not taken on board, then time consuming re-assessment of the existing project portfolio’s alignment with the newest version of the taxonomy.

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					X	
Alleviations from prudential requirements				X		
Other financial incentives or alternative incentives for investors				X		
Other incentives or alternative incentives for issuers?				X		

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”:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

It would be important to encourage financial institutions to find ways to enhance pricing of green finance offered to clients, as already being implemented by some EAPB members who give a margin discount on green finance to their customers. A grant to issuers to cover the cost of the external verifications could grow the market or keep the current size as some may drop out due to the new layers of verification.

Taking into account the considerable associated costs related to the issuance of Green Bonds, this process should offer the participating investors (providing physical and financial assets as a counterpart) more tangible incentives going beyond positive reputation and recognition, e.g. extra-financial scoring and labelling or an issuance premium, etc.

In terms of alleviations from prudential requirements, even though impact will likely be large, it is important to carefully analyse the impact of such regulation and prudential rules well in advance before implementation.

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?

- (x) Yes
- ( ) No
- ( ) Don’t know / no opinion / not relevant

Question 15.1 Please explain your answer to question 15:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The term “public sector issuer” comprises a wide range of different issuers. Demonstrating EU Taxonomy compliance including DNSH and Minimum Safeguards might be challenging especially for sovereign and sub-sovereign issuers, when looking at their budgets and their financing for SMEs and households. Public infrastructure financing public sector issuers should be on equal footing with any other issuer.

The usability guide states that issuers must seek external verification of green projects (section 7.3): Before or at the time of issuance, through an initial verification, the alignment (a) of their Green Projects with the EU Taxonomy within the parameters set out by the EU GBS and (b) of their GBF; (...)”. If this is to be interpreted as external verifiers needing to assess if each individual project meets the taxonomy criteria, this proposal will pose a challenge for public sector issuers. This is mainly because public sector issuers tend to give loans towards many small-scale investments. If each individual project is to be assessed, the cost per project will be high thus placing a burden on public sector issuers whose financial room to manoeuvre is already limited. EAPB suggests that external verifiers instead assess alignment from a governance perspective, reviewing whether screening criteria, project categories etc. are taxonomy aligned rather than assessing each individual project. EAPB therefore suggests changing the wording to: “Before or at the time of issuance, through an initial verification, the alignment (a) of the selection/eligibility criteria for their Green Project Portfolio/Green Projects with the EU Taxonomy and (b) of their GBF; (...)”

A substantial number of issuances are exempt from the requirements of the Prospectus Regulation on national level. Would the EU GBS be implemented through this legislation? If so, will issuances that are exempt from the requirements of the Prospectus Regulation be required to fulfil additional aspects of the Regulation to be able to be EU Green bond issuers?

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?

- (x) 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:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Yes, in the current market where projects are limited and funding ample green bonds allow for cheaper funding of green projects.

Currently, as there is a limited supply of green bonds, a ‘greenium’ is visible and the cost of issuing a green bond is lower than issuing a normal bond. Hence, green projects owners may receive cheaper financing.

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.					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		

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.

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

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Developing a pan-European definition of social can be challenging as member countries are at different stages of developing welfare state models and have different approaches in their healthcare system set-ups and social security systems etc.

ICMA’s social bond principles provide a solid framework for issuers to follow. In the principles, the importance of finding relevant target populations has been highlighted and focus has been set on finding the people most in need whenever possible. In our view, this is enough for issuers to build a credible social bonds framework. Having second party opinions has also become a standard in the market.

Therefore, in efforts to avoid “social washing” it would probably be the most beneficial to consider relevant KPIs for different eligible project categories. For instance, which metrics should be looked at and reported on in the case of education, healthcare, social housing, social security benefits and SME lending. Here the Commission could provide a set of possible KPIs. However, it is important not to make it compulsory as data availability can be an issue, and also some KPIs may not be relevant for all Member States. Against the background of the above, a non-binding guidance or a best practices document could be a helpful tool.

Question 18.1 Please explain your answer to question 18:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

See answer to question 18.

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
- (x) 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:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

See answers to question 14, which apply also to social bonds.

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) here:

The maximum file size is 1 MB.
You can upload several files.
Only files of the type pdf,txt,doc,docx,odt,rtf are allowed

Useful links

More on this consultation (https://ec.europa.eu/info/publications/finance-consultations-2020-eu-green-bond-standard_en)

Consultation document (https://ec.europa.eu/info/files/2020-eu-green-bond-standard-consultation-document_en)

Inception impact assessment (https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12447-EU-Standard-for-Green-Bond-#publication-details)

More on EU Green Bonds Standard (https://ec.europa.eu/info/publications/sustainable-finance-teg-green-bond-standard_en)

Specific privacy statement (https://ec.europa.eu/info/files/2020-eu-green-bond-standard-specific-privacy-statement_en)

More on the Transparency register (http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

Contact

fisma-eu-green-bond-standard@ec.europa.eu