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Summary of the European Commission's Proposed Regulation for a Green Bond Standard

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TO: ICI Global Members

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International/Global RE: Summary of the European Commission's Proposed Regulation for a Green Bond Standard

On 6 July 2021, the European Commission published a package of revised sustainable finance strategy measures.[\[1\]](#) This package included a proposed Regulation laying the foundation for a common framework of rules regarding the use of the designation 'European green bond' or 'EuGB' for bonds that pursue environmentally sustainable objectives within the meaning of the EU Taxonomy Regulation.[\[2\]](#) The proposed Regulation for the EU green bond standard (GBS) aims to address concerns of greenwashing while protecting market integrity and ensuring that legitimate environmental projects are the ones that are being financed.[\[3\]](#)

The European green bond label is entirely voluntary. It can be used by any issuer, including EU and third-country private companies and public authorities; however, once an issuer chooses to use it, they must adhere to all the GBS Regulation's requirements. In addition, different types of bonds can be issued, including covered bonds, asset-backed securities, project bonds, etc., provided they meet the requirements at all times.

The purpose of this memorandum is to provide a brief summary of the Commission's proposal for the GBS.

1. Background: pathway to a proposal to adopt a unified standard for European Union green bonds

Establishing the GBS stems from the Commission's 2018 action plan on financing sustainable growth[\[4\]](#) and is part of the European green deal.[\[5\]](#) It is based on a report published by the Technical Expert Group on Sustainable Finance on 18 June 2019, which recommended that the EU create a voluntary green bond standard to enhance the effectiveness, transparency, comparability, and credibility of the green bond market.[\[6\]](#)

Once it is adopted by co-legislators, the proposed Regulation will set a gold standard for how companies and public authorities can use green bonds to raise funds on capital markets to finance such ambitious large-scale investments, while meeting tough sustainability requirements and protecting investors.

2. Proposed Regulation for the EU Green Bond Standard

The GBS will have four main requirements: alignment with EU Taxonomy, full transparency, review by an external reviewer, and supervision by the European Securities Market Authority (ESMA).

A. Full Allocation to Projects Aligned with the EU Taxonomy

All issuers using the EU green bond label will need to ensure that proceeds of the bond are allocated to economic activities that either immediately meet the requirements of the Taxonomy Regulation^[7] Delegated Acts,^[8] or will meet the Taxonomy requirements within a defined period of time. For issuers that intend to meet taxonomy alignment over time, they would need to produce a taxonomy alignment plan.

Determining taxonomy alignment will be challenging, as only two of the six environmental objectives of the Taxonomy Regulation have been developed into technical screening criteria. Under the Commission's proposal, green bond issuers will determine taxonomy alignment for eligible assets and expenditures (other than debt) based on the requirements of the Delegated Acts applicable at the time of issuance of the bond. Where relevant Delegated Acts are amended or developed after the issuance of a green bond, the issuer will be required to apply the requirements of the amended Delegated Act within five years of its entry into application.

In addition to the taxonomy requirement, there would also be only four distinct types of assets and expenditures that corporate issuers can raise money for: physical assets, financial assets, capital expenditures, and operating expenditures. Sovereign issuers would be permitted to allocate funds to a broader set of expenses.

B. Full Transparency on Bond Proceed Allocation

Full transparency on how bond proceeds are allocated, through detailed reports, will be required under the new standard.^[9] Before issuing the bond, the issuer will be required to publish a "green bond factsheet," which sets out environmental objectives of the bond and its concrete funding goal, at the project level if available. Furthermore, once the bond has been issued, issuers will be required to publish yearly allocation reports showing how they are allocating the proceeds of the bond to Taxonomy-aligned expenses. Finally, the issuer will also be required to publish at least one report on the aggregate environmental impact of the bond, before the maturity of the bond.

C. External Review for Compliance

All EU green bonds must be checked by an external reviewer to ensure compliance with the Regulation and that funded projects are aligned with the EU Taxonomy. Specific limited flexibility will be permitted for sovereign issuers. The transparency reports discussed above are subject to external reviews at different stages, for example the green bond factsheet is subject to a pre-issuance review. Once all of the bond proceeds have been allocated (which must occur before the bond fully matures), the issuer is required to obtain a "post-issuance review." Regulatory Technical Standards (RTS) will outline criteria for appropriate systems,

resources and procedures for these external reviewers and will be submitted to the Commission 12-months after the GBS Regulation enters into force.

D. Supervision of External Reviewers by ESMA

External reviewers providing services to issuers of EU green bonds will be required to register with, and be supervised by, ESMA. The GBS Regulation also sets out extensive requirements for external reviewers with regard to qualifications, experience, record keeping, transparency, and management of conflicts of interest. Under the proposal, ESMA will have the ability to issue fines to external reviewers for certain intentional or negligent infringements.

3. Next Steps for the EU GBS

Triologue negotiations are underway for the EU GBS Regulation. Until the GBS enters into force, the current bond scheme will continue to be aligned with the International Capital Market Association (ICMA), a market standard for green bonds.

On 7 September, the Commission adopted a proposal to raise €250bn in green bonds between now and the end of 2026 - with around €80bn planned for the remainder of 2021 to support Europe's economic recovery from the coronavirus pandemic.^[10] At a related press event, EU Budget commissioner Johannes Hahn noted that it will take another "one or two years" for the EU GBS to be finalized.

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endnotes

[1] See ICI Memorandum No. 33681, European Commission Publishes a Package of Sustainable Finance Measures, 9 July 2021, available at <https://www.ici.org/memo33681>.

[2] Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on European green bonds COM/2021/391 (6 July 2021), available at <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0391>

[3] See https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3405

[4] See https://ec.europa.eu/info/publications/sustainable-finance-renewed-strategy_en#action-plan

[5] See https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

[6] See https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group_en

[7] REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of

18 June 2020 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 (Taxonomy Regulation), *available at* <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R0852>.

[8] EU Taxonomy Climate Delegated Act, *available at* [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=PI_COM:C\(2021\)2800](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=PI_COM:C(2021)2800)

[9] See https://ec.europa.eu/commission/presscorner/detail/en/ip_21_3405

[10] See https://ec.europa.eu/commission/presscorner/detail/en/ip_21_4565

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