

Proposal for a Regulation on European green bonds

Position – Executive summary

September 2021

Establishing a European green bond standard ('EUGBS') was an action in the Commission's 2018 action plan on financing sustainable growth and is part of the European Green Deal. The European Commission adopted its proposal for a EUGBS in July 2021 and later launched a public consultation. In this context, ESBG has recently finalised a position paper that indicated some of the main concerns with the adopted proposal.

TAXONOMY ALIGNMENT

Non-specialised corporate financing of firms with a Taxonomy-aligned corporate goal seem to be excluded from the proposed EUGBS although covered by the Taxonomy. All corporate financing to companies aligned with the taxonomy's objectives should be considered eligible, even if the funds are not allocated to a taxonomy-aligned activity or project.

APPLICABILITY

All issuers, whether financial institutions, companies, or public agencies, should be treated equally. We do not agree with sovereigns' flexibility and the preferential treatment of external reviewers.

ORGANISATIONAL REQUIREMENTS

The number of organizational requirements in the proposal exceeds the purpose of the Regulation. We are concerned that smaller reviewers may be unable to meet all requirements that may lead to monopoly of a few larger organisations.

USE OF PROCEEDS

Achieving 100% taxonomy compliance for the use of proceeds allocation will be too difficult especially as technical screening criteria for the remaining four taxonomy objectives are still under development.

GRANDFATHERING

The label is not fully grandfathered for the whole maturity of the bond, and issuers are given 5 years to amend the use of proceeds allocation based on the updated Taxonomy technical screening criteria. This could create uncertainty for both issuers and investors, and could lead to mistrust of the label and a reluctance to invest in transitional activities, which are more susceptible to taxonomy changes.

COSTS OF ISSUANCE

Prohibiting the costs of issuing a green bond to be covered by the proceeds of the issuance would add unnecessary complexity by requiring the search for alternative sources of funding, and lower the appeal of EUGBS. It would also have accounting implications and raise questions about whether such a cost is an allowable expense for determining the issuer's tax liability.

GREEN BOND FACTSHEET

The proposed green bond factsheet requires the disclosure of many details prior to issuance, which may limit issuers' ability to tap the market with flexibility. Also, further guidance on the process and the timing is needed.

ESMA'S SUPERVISORY POWERS

The supervisory powers of ESMA, including administrative sanctions and inspection rights, go beyond the scope of the Regulation.

[READ THE FULL POSITION PAPER](#)