

POSITION PAPER



ESBG response to EC proposal for a Regulation on European green bonds

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ESBG Transparency Register ID 8765978796-80

September 2021



ESBG applauds the EU's efforts to develop a binding and consistent green bond standard that is linked to the Taxonomy.

Below you may find some concerns with the current proposal.

Thirteen of the proposal's provisions deal with the green bond itself, while more than fifty with the legal framework of external reviewers and other supervisory powers. While we agree that the goal of these provisions is to prevent greenwashing, we believe the organizational requirements have exceeded the purpose of the Regulation. We are concerned that smaller reviewers may be unable to meet all requirements, leaving only a few larger organizations (the "Big 4"), limiting options and potentially leading to monopoly positions.

Also, although the Taxonomy focuses on two types of asset financing, i.e. financing of Taxonomy-aligned activities or projects, and non-specialized corporate financing of firms with a Taxonomy-aligned corporate goal, the latter seems to be excluded from the proposed EUGBS. Should this is correct, we ask all corporate financing to companies aligned with the taxonomy's objectives be considered eligible, even if the funds aren't allocated to a taxonomy-aligned activity or project.

Moreover, 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. It would be particularly difficult for an issuer to report on their impact using undeveloped quantitative metrics and thresholds. Impact reporting is a time-consuming and costly exercise. Although reporting is more manageable for a few major issuers through huge upfront investments in IT infrastructure and greater communication, this is not the case for most issuers (including very large ones).

Furthermore, 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. Thus, projects that were eligible for an allocation before the criteria's amendment would have to be refinanced, the issuer would have to find new "green" uses of proceeds or, bond proceeds would have to be repaid in the worst-case scenario. This creates uncertainty for both issuers and investors, as the EUGBS becomes more unpredictable, potentially devaluing bonds that are not subject to the EUGBS. This could lead to mistrust of the label and a reluctance to invest in transitional activities, which are more susceptible to taxonomy changes. Also, there is a lack of guidance on practical implementation issues, such as whether the issuer must distribute funds to new eligible projects, what an issuer must do and what happens to existing bonds if no new eligible projects are found, the obligation's timeframe, etc.

Also, the fact that the costs of issuing a green bond cannot be covered by the proceeds of the issuance appears unusual. Costs are always incurred during the issuance process (such as fees for underwriting, prospectus approval, listing, the external reviewer, legal advisors, auditors or cost for the printing of a prospectus). Normally, these costs are allocated to each individual bond issuance. As a result, the ICMA Green Bond Principles only allow for the use of the issuance's "net proceeds." Such a prohibition would add unnecessary complexity by requiring the search for alternative sources of funding, lowering the attractiveness of EUGBS. It would also have accounting implications as well as raise questions about whether such a cost is an allowable expense for determining the issuer's tax liability.

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. Further guidance on the process and the timing would be helpful. As some issuers, for example, decide on



the bond's maturity or amount on the same day they make the deal public, they would be unable to do so if they were required to provide an external auditor with a factsheet with information on the proceeds allocation for verification. Also, when a portfolio approach is used, existing assets already have a third-party view. The factsheet's needed evaluation will entail additional costs that are deemed unnecessary.

The supervisory powers of ESMA, in our view, go also beyond the scope. ESMA's administrative sanctions and inspection rights are rare for a voluntary standard, and outweigh the sanctions of binding legal standards.

Lastly, all issuers, whether financial institutions, companies, or public agencies, should be treated equally. Sovereigns' flexibility doesn't seem reasonable in the context of the Green Deal and should be excluded from the proposal. The preferential treatment of external reviewers is also inexplicable as public auditors have an inherent and inescapable conflict of interest that equates to self-auditing. Under other laws this is illegal.



About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 900 banks, which together employ more than 650,000 people driven to innovate at roughly 50,000 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion in corporate loans (including to SMEs), and serve 150 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking. Our transparency ID is 8765978796-80.



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Published by ESBG. [September 2021]