



Eurosif position on the EU Green Bond Standard (EU GBS)

Eurosif welcomes the EU Commission's proposal for a EU Green Bond Standard (EU GBS), as it sees the need for a specific European green bond labelling system which goes beyond existing market-led initiatives and links the allocation of funds to the EU Taxonomy.

To ensure the credibility and a wide, successful adoption of the EU GBS, Eurosif asks legislators to consider the following points in their further discussions:

- (1) More specific **transparency requirements on Taxonomy-alignment plans** for projects which will meet Taxonomy criteria within five years after issuance of the green bond – respective issuers should be required to set interim targets, to publish periodic progress reports and be subject to external review. National Competent Authorities (NCAs) should be empowered to repeal the EU GBS if issuers fail to comply with their plan.
- (2) **Net-zero disclosure requirements** for issuers active in natural gas and/or nuclear power sectors – respective issuers should be required to disclose their net-zero decarbonisation plans, in order to classify their bonds under the EU GBS.
- (3) Introduction of **grandfathering rights** – from the issuance until full maturity of the EU GBS bond, to reassure issuers and investors that any tightening of Taxonomy criteria would not result in losing EU GBS eligibility.
- (4) Allowing for **flexibility** on the use of proceeds under clear rules only – a limited degree of flexibility on the Taxonomy-alignment of the use of proceeds might be justified. However, this requires clear rules on: (a) the maximum share of flexibility allowed, (b) the specific cases and conditions where a non-Taxonomy-aligned investment can be considered compatible with the EU environmental objectives, and (c) additional disclosure requirements for both issuers and investors.
- (5) A **voluntary** EU GBS for all issuers, including EU institutions and bodies.
- (6) **No delays** in application of the EU GBS – the sooner the EU GBS enters into force, the sooner its market uptake can be observed and any further changes needed identified.
- (7) Clarifications on the **role and powers of the NCAs** – concerning the sanctioning and inspection powers of non-EU NCAs and the role of NCAs vis-à-vis sovereign issuers.

These points are further expanded in the following paragraphs.

I. More specific transparency requirements on Taxonomy-alignment plans

More specific disclosure requirements are needed for the Taxonomy-alignment plans of those projects which are said to fulfil the Taxonomy criteria in five years.

Issuers should be required to disclose **interim targets** in the pre-allocation factsheet, in addition to actions and expenditures considered necessary to improve the environmental performance of their investments over time. A description of the **progress** made on said interim targets should be included in the annual allocation reports. Issuers already publishing non-financial statements should be required to also explain the interplay between the Taxonomy-alignment plan and the CapEx and OpEx plans, which are required under the Taxonomy Regulation and its delegated acts.



Additional rules should specify the procedure for external reviewers when assessing the robustness of and progress on Taxonomy-plans, requiring periodic controls. Moreover, external reviewers should be allowed to issue a **public statement of non-compliance** if an issuer fails to respect the Taxonomy-alignment plan.

The **powers of NCAs** to officially repeal the EU GBS should be clarified. Eurosif welcomes the amendments proposed by ECON, requiring Taxonomy-alignment plans to be subject to annual external reviews. Failing to comply with interim targets twice in a row, would then constitute a reason for losing the EU GBS designation.

2. Net-zero disclosure requirements for issuers active in natural gas and/or nuclear power sectors

Activities related to natural gas and nuclear energy may not be perceived as green and are commonly screened-out by some of the most widely used environmental labels in the European market. Under the EU Taxonomy, they have recently been classified as transitional activities.

To ensure investor protection, issuers active in those sectors, should be required to **disclose the absolute value and percentage of proceeds** allocated to natural gas and/or nuclear power projects in the pre-issuance factsheet and the post-issuance allocation report. This information should always be made available to investors, even if the description of qualifying projects is provided at aggregate level and disclosed in a dedicated section.

Additionally, issuers operating in those sectors should be required to disclose and regularly update **decarbonisation plans that are compatible with achieving net-zero in 2050**. Those plans should be prepared in a way that is consistent with the climate reporting standards to be adopted under the Corporate Sustainability Reporting Directive.

3. Introduction of grandfathering rights

To ensure a wide and stable uptake and the value of the labelling system for investors, the EU GBS designation should be given **grandfathering rights from the issuance until full maturity of the bond**. This would reassure issuers and investors that any tightening of Taxonomy criteria after an EU GBS bond has been issued, would not result in them losing their EU GBS eligibility. Yet, issuers should be required to provide adequate and detailed explanations of such an event in a dedicated section of the post-issuance annual allocation report. Certainly, all other requirements, including adherence to the Taxonomy-alignment plan, must be satisfied.

4. Allowing for flexibility on the use of proceeds under clear rules only

The adoption of a flexibility regime which allows portions of proceeds to be used for non-Taxonomy-aligned projects, poses a trade-off between the benefit of encouraging wide uptake of the EU GBS and the risk of damaging its credibility and integrity as an ambitious standard.

Eurosif sees **merits in granting such flexibility** if it has the objective of awarding the EU GBS to projects, for which Taxonomy criteria have not been established yet, or for which existing criteria are not applicable due to the innovative nature of the activity, the complexity or specific location of the project. In this context, flexibility should be granted irrespective of the nature of the issuer (corporate or sovereign).

However, there needs to be **clear rules and criteria** in place, defining and limiting the cases in which flexibility is granted and enforcing full transparency to avoid opacity and market abuse. More precisely rules and definitions are needed on:

- (a) the **maximum share of flexibility allowed**, which should be as narrow as possible, as well as a requirement for EU regulators to regularly evaluate the progressive reduction of this share and/or the introduction of a sunset clause;

- (b) the **specific cases and conditions** where a non-Taxonomy-aligned investment can be considered compatible with the EU environmental objectives, including clear safeguard thresholds and science-based parameters. Eurosif agrees with the proposal put forth by some Member States to empower the EU Commission to adopt technical regulations to clarify this domain.
- (c) **additional disclosure requirements** for both issuers and investors, to ensure full transparency on which portions of proceeds are not fully Taxonomy-aligned.
 - **Issuers** should be required to report on the proceeds used in accordance with such flexibility by disclosing, in a dedicated section of the pre-issuance factsheet and the post-issuance allocation reports, information on the absolute value and the percentage relative to the overall amount of allocated proceeds, and an explanation as to why those activities are in line with the EU environmental objectives.
 - For **investors**, proceeds allocated to non-Taxonomy-aligned activities should not contribute toward the calculation of the green Key Performance Indicators of either financial undertakings or financial products pursuing environmental objectives. Therefore, specific transparency measures should be introduced respectively in the Delegated Regulation specifying the reporting requirements as per Article 8 of the Taxonomy Regulation, and the Regulatory Technical Standards detailing the disclosure rules for products classified under Article 5 and Article 6 of the Taxonomy Regulation.

5. A voluntary EU GBS for all issuers

Making the adoption of the EU GBS voluntary and being able to observe the initial market uptake will be crucial for evaluating investors' reactions to and assessing the efficacy of the EU GBS, allowing for time to address potential weaknesses. Importantly, the adoption of the EU GBS should be **voluntary for all issuers**, including EU institutions and bodies. Making the adoption of the EU GBS mandatory for EU institutions could cause intense debates on choosing the best criteria for the standard, derailed by political and strategic considerations, which may ultimately alter or water down the eligibility provisions.

6. No delays in application of the EU GBS

While it is understandable that green bond issuers will need time to comply with the EU GBS criteria, Eurosif believes the **schedule envisaged by the EU Commission should be maintained** to quickly achieve this initiative's policy objective. The sooner the standard enters into force, the sooner issuers and investors can implement and test its adoption.

7. Clarifications on the role and powers of the NCAs

As pointed out by the ECB, further specifications are needed as to whether non-EU issuers are subject to respective NCAs. Appropriate measures should be introduced to ensure that non-EU NCAs have powers equivalent to those proposed for EU NCAs, including the issuance of sanctions and carrying out of inspections. Otherwise, EU issuers could face competitive disadvantages as compared to non-EU issuers, if the former are subject to stricter sanctioning regimes. Finally, it should be made explicit whether sovereign issuers are also subject to respective NCAs.