

European green bonds

2021/0191(COD) - 06/07/2021 - Legislative proposal

PURPOSE: to put in place a common set of requirements for a harmonised standard for European green bonds, which will further simplify environmentally sustainable investments and support a coordinated way of improving the functioning of the single market.

PROPOSED ACT: Regulation of the European Parliament and of the Council.

ROLE OF THE EUROPEAN PARLIAMENT: the European Parliament decides in accordance with the ordinary legislative procedure and on an equal footing with the Council.

BACKGROUND: over the last number of years, the EU has become significantly more ambitious in tackling climate change. The Commission has already taken unprecedented steps to build the foundations for sustainable finance. Sustainability is the central feature of the EU's recovery from the COVID-19 pandemic and the financial sector will be key in helping to meet the targets of the European Green Deal.

The European Green Deal Investment Plan envisages the establishment of a standard for environmentally sustainable bonds to further increase investment opportunities and facilitate the identification of environmentally sustainable investments through a clear label. These environmentally sustainable bonds are one of the main instruments for financing investments related to low-carbon technologies, energy and resource efficiency as well as sustainable transport infrastructure and research infrastructure.

Given the existing divergences and absence of common rules, it is likely that Member States will adopt diverging measures and approaches, which will have a direct negative impact on, and create obstacles to, the proper functioning of the internal market, and be detrimental to issuers of environmentally sustainable bonds.

Thus, the need for a harmonised green bond standard to be applied across the Union by both public and private green bond issuers.

This proposal for a European Green Bond is anchored in the Taxonomy Regulation (EU) 2020/852. The Taxonomy Regulation establishes a classification of economic activities according to their environmental sustainability, with full compliance with minimum social safeguards as one of the determining criteria.

CONTENT: the proposal aims to (i) establish uniform requirements for bond issuers who voluntarily wish to use the 'European Green Bond' or 'EuGB' designation for their environmentally sustainable bonds in the Union, and (ii) establish a registration system and a framework for monitoring external examiners of European Green Bonds.

Conditions for the use of the 'European Green Bond' designation

The proposal:

- the limits the use of the 'European Green Bond' or 'EuGB' designation to issuers of bonds that meet specific requirements until the bond matures. This framework would be open to any bond issuer, including issuers of covered bonds and securitisations issued by a securitisation vehicle. In addition, the issuers concerned could be established both inside and outside the EU;

- requires that all use of bond proceeds shall relate to economic activities that meet the requirements for environmentally sustainable economic activities set out in Taxonomy Regulation, namely: making a substantial contribution to one or more of the environmental objectives and not significantly harming any of those environmental objectives.

Transparency and external review requirements for European green bonds

The issuance of a green bond should be fully transparent, with detailed reporting requirements.

The proposal clarifies that the bond may only be offered to the public in the Union after prior publication of the European green bond factsheet on the issuer's website together with the pre-issuance review of the European green bond factsheet by an external reviewer. It imposes an obligation upon the issuer to draw up European green bond annual allocation reports yearly.

Conditions for taking up activities as external reviewers for European green bonds

The proposal includes a requirement to be registered and to meet the conditions for registration on an ongoing basis. Once registered, an external reviewer may conduct its activities throughout the entire territory of the Union. An external reviewer has to apply for registration from the European Securities and Markets Authority (ESMA). These measures do not apply to state auditors and other public entities mandated by sovereign issuers to assess compliance with the Regulation.

Rules on the provision of services by third-country external reviewers

The proposal lays down the powers of national competent authorities to supervise bond issuers. It also includes several provisions that specify the administrative sanctions and other administrative measures that competent authorities may impose as well as rules on the publication and reporting to ESMA of those sanctions.

It also sets out ESMA's powers with regard to the supervision of external reviewers. These include the power to request information by simple request or by decision, the power to conduct general investigations as well as the power to conduct on-site inspections.