



Questions and Answers: European Green Bonds Regulation

Brussels, 6 July 2021

What is the Commission proposing?

The Commission is proposing today a Regulation to create the “European Green Bond Standard” or “EUGBS”. The EUGBS is intended to be a voluntary “gold standard” for green bonds. Use of the standard would allow companies and public bodies to more easily raise large-scale financing for climate and environmentally-friendly investments, while protecting investors from greenwashing. The standard will use the detailed definitions of green economic activities in the EU Taxonomy to define what is considered a green investment.

What are the key features of the European Green Bond Standard?

- **Inclusive:** It will be open to all EU and non-EU issuers, including corporates, sovereigns, financial institutions, and issuers of covered bonds and asset-backed securities. Specific, limited, flexibility will be provided for sovereign issuers.
- **Voluntary:** It will be a voluntary standard setting out uniform requirements for any bond issuers that wish to call their bond a “European green bond” or “EUGBS”.
- **Aligned with the EU Taxonomy:** The standard requires that issuers must allocate 100% of the funds (proceeds) raised by their bond to economic activities that meet the [EU Taxonomy](#) requirements, by the time the bond matures.
- **Supporting issuers in transition:** European green bonds can be used to fund long-term projects (duration up to 10 years) that make an economic activity aligned with the EU Taxonomy.
- **External review:** European green bonds will be checked by an external reviewer to ensure that the bonds are compliant with the EUGBS Regulation, in particular the Taxonomy-alignment of the funded projects. External reviewers will be registered with the European Securities and Markets Authority (ESMA) and will need to meet the conditions for registration on an ongoing basis.
- **Grandfathering:** In the event of a change in the EU Taxonomy Technical Screening Criteria (TSCs) after bond issuance, issuers can make use of pre-existing criteria for five more years.

How will investors know the bonds are really green?

The proposed Regulation will define requirements for companies acting as external reviewers for green bonds using the new standard. External reviewers play a crucial role in maintaining the integrity of the green bond market by assessing the greenness of each bond and the activities it funds. To ensure that investors can rely on external reviewers, the European Green Bond Regulation will set out requirements for transparency, professional qualifications and avoiding conflicts of interest. The role of supervising compliance with these requirements would be given to the European Securities and Markets Authority (ESMA).

Why do we need another standard for green bonds?

Green bonds help to finance climate-mitigating investments, for example energy production and distribution, resource efficient housing, and low-carbon transport infrastructure. Despite the recent steady growth in this market, it still suffers from a lack of clear definitions of green projects, creating uncertainty and added costs for issuers and investors alike. There is also insufficient standardisation, transparency and supervision of external reviewers that provide assurances to issuers and investors on the greenness of their investments.

The new standard for European green bonds aims to fix this by requiring close alignment with the 2015 [Paris Agreement](#) and sectoral criteria of the EU Taxonomy, and by creating a regime for registering and supervising external reviewers. The future standard should provide issuers of high quality green bonds a reliable and trustworthy way to demonstrate their strong environmental commitment. For bond investors, the standard should enable them to more easily trust that their investments are sustainable, thereby reducing the risk of greenwashing. Based on its close alignment with the EU Taxonomy and its strong focus on market integrity and investor protection, the EUGBS will set a new benchmark for green bonds. The overall aim is to create a 'gold standard' that other market standards can be compared to, and potentially seek to align.

Why is the proposal for a European Green Bond coming now?

Green bond issuance in the EU has grown quickly in recent years, with a five-fold increase over the last 5 years. The EU is a global leader in this market, with 51% of global issuance in 2020 from EU companies and EU public bodies. The euro is also an attractive currency for global green bond issuers: in 2020, 49% of global green bonds were denominated in euros. Despite these encouraging figures, current green bond issuance in the EU still only represents 2.6% of total EU bond issuance. Further growth in the market for high quality green bonds could be a source of significant green investment, helping to meet the European Green Deal targets. Providing a trusted, regulated environment for green bonds will also reinforce the international role of the euro and help companies and public authorities to use green bonds to raise funds on European capital markets. This will in turn boost the Capital Markets Union and the EU's financial markets as a hub for sustainable finance.

Can European green bonds be used as a transition tool?

Yes, European green bonds are well suited for supporting any kind of issuer in their transition towards greater alignment of their economic activities with the [EU Taxonomy](#).

This proposal is part of the broader EU agenda on sustainable finance. The focus of the standard is making sure that the funds raised by the bond are allocated to environmentally sustainable investments. There are three main ways in which European green bonds can be used by companies to support their sustainability transition:

1. **Funding long-term projects:** Issuers may use European green bonds to fund multi-year Taxonomy-alignment projects, such as converting a production facility (like a steel plant) to reduce its emissions and meet the Taxonomy thresholds. The condition is that the transformation results in an EU Taxonomy-aligned project.
2. **Transition towards Taxonomy-alignment:** A company could issue a European green bond to acquire or construct an EU Taxonomy-aligned asset, such as a new energy-efficient building. In this way, the company is gradually increasing its share of Taxonomy-aligned assets.
3. **Transition activities:** the EU Taxonomy sets out a range of criteria for 'transition activities', such as cement and steel manufacturing.

What are the requirements for European Green Bonds on transparency and external review?

The standard for European green bonds follows current market best practice on transparency and external review, but goes further in terms of sustainability and investor protection. In particular, private issuers will be subject to the following requirements:

- Before issuing the bond, issuers will be required to publish a 'green bond factsheet' setting out the concrete funding goals and environmental objectives of the bond. This factsheet will be subject to a 'pre-issuance review' by a registered external reviewer to ensure that the bond meets the requirements of the EUGB Regulation.
- Once the bond has been issued, issuers will be required to publish yearly reports showing how they are allocating the proceeds of the bond to Taxonomy-aligned projects.
- Once all the bond proceeds have been allocated (which must happen before the bond matures), the issuer will be required to obtain a 'post-issuance review'. For certain issuers (such as some banks), the requirement to obtain a post-issuance review will be yearly.
- There will also be a requirement to publish at least one report on the overall environmental impact of the bond.

What will the role of external reviewers be, and how will they be registered and supervised?

Companies wishing to act as external reviewers for European green bond issuers must register with the European Securities Markets Authority ([ESMA](#)) and comply with requirements on qualifications, experience, record keeping, transparency, and conflict of interest management. ESMA will then supervise them on an ongoing basis. Once they have done so, they can provide the two types of services foreseen under the EUGBS Regulation: pre-issuance reviews, which assess the alignment of the bond with the standard before the bond is issued, and post-issuance reviews, which check that the issuer has allocated the funds raised by the bond to economic activities aligned with the EU Taxonomy.

Will the standard for European green bonds cover social bonds?

The Regulation on European Green Bonds does not cover them, but the issuer will have to respect minimum social safeguards as per the EU Taxonomy Regulation. European green bonds can also be used to finance education and training, when this relates to economic activities that are aligned with the EU Taxonomy.

Who can issue European green bonds?

Issuers both inside and outside the EU can issue European green bonds. Furthermore, all types of bond issuers can issue European green bonds, including non-financial companies, financial companies, governments and other public bodies.

What types of bonds can be issued as European green bonds?

All different types of bonds, including covered bonds, asset-backed securities, and project bonds (i.e. bonds where the return of the bond is linked to the asset they are financing) can be issued as European green bonds, provided they respect the requirements of this Regulation.

How does the standard for European green bonds relate to other green bond standards (e.g. ICMA's Green Bond Principles, Climate Bonds Initiative's Climate Bonds Standard)?

European green bonds are based on market best practice and the standard is designed to be compatible with existing market standards for green bonds. However, it also goes further than market-based standards in certain key aspects, including by requiring full alignment of funded projects with the EU Taxonomy and by establishing a regime for the registration and supervision of external reviewers.

Does the Commission see a role for the European green bond in the context of the recent EU recovery package?

The EUGBS proposal adopted today now has to go through the co-decision process in the European Parliament and Council, which will be followed by an implementation period prior to entry into force. However, the EU will start issuing NextGenerationEU (NGEU) green bonds as early as possible this year.

The European Commission wants to proceed with the first issuances under NGEU in 2021 to finance the recovery. Money will be used for green and digital investments across the 27 Member States already at the pre-financing stage of funding. To make the most out of current market demand for green bonds and in line with the European Green Deal, NGEU green investments should be financed through green bonds from the very beginning. To maintain our credibility as a leading issuer, the Commission will prepare a robust and credible framework for the NextGenerationEU green bond issuances. It will be based on well-known and established market standards, while catering for the specific structure of the programme where, for example, spending authorities are separate from the issuing institution. It will provide the necessary guarantees to investors that the proceeds have been used for green investments. The framework will be aligned, to the greatest extent possible, with the future EUGBS.

Will there be flexibility for sovereign issuers?

There are two types of flexibility proposed for sovereign issuers of European green bonds:

- The ability to use state auditors or other public entities instead of registered external reviewers to review the allocation report (i.e. the post-issuance review), as is common practice among EU Member States already issuing green bonds.
- An exemption from having to demonstrate project-level EU Taxonomy-alignment for certain public expenditure programmes, such as funding or subsidy programmes and tax relief schemes. In those cases (for example a subsidy-scheme for home-owners to install solar panels), it will be enough for the sovereign to show that the funding programme itself is Taxonomy-aligned in its terms and conditions.

Will this Regulation cater to transition bonds and sustainability-linked bonds?

The [2018 European Commission Action Plan](#) on Financing Sustainable Growth proposed the creation of an EU standard for green bonds. At the same time, sustainability-linked bonds and transition bonds are becoming more popular. In its 2021 Strategy for Financing the Transition to a Sustainable Economy, the Commission has announced that it will now work on transition and sustainability-linked bond standards.

For More Information

[Strategy for financing the transition to a sustainable economy](#)

[Proposal for a Regulation on a European Green Bonds](#)

[Press release: Sustainable Finance: Commission adopts new Sustainable Finance Strategy and proposes European Green Bond Standard](#)

[Factsheet: EU sustainable finance strategy](#)

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