No time to waste. Meet the european green bonds standard

It’s no longer a novelty that climate change poses significant risks to financial stability. The issue has become even more pressing in the context of the global pandemic Covid-19. Since the European Investment Bank issued the first green bond in 2007, the green bond market has developed significantly, exceeding 1 trillion dollars in size globally so far.

On 6 July 2021, following in-depth consultations and works of various technical expert groups, the European Commission launched the Proposal for a Regulation on European Green Bonds (EuGB). Thus, one more step has been taken in the lengthy corporate transition to carbon neutrality.

The Proposal is part of a broader European Commission’s strategy on sustainable finance, starting with the 2016 Paris Agreement, continuing with the 2018 Action Plan on Financing Sustainable Growth, the 2019 Communication on the European Green Deal, respectively with the expected “Fit for 55” package of revised climate and energy laws. Also, it is expected that almost a third of EU's 750-billion-euro recovery fund shall be financed via green bonds.

The Proposal tackles critical issues of the investors, such as uncertainty as to which economic activities may be considered legitimately green, high costs and reputational risks from potential accusations of greenwashing.

The European Green Bonds Standard (EuGBS) is established as voluntary standard built on existing market best practices. The main objective is to force the other existent market standards to be aligned with the European one.

The standard is structured around four main pillars. Taxonomy-alignment of the use of proceeds. The funds raised by the green bonds should be allocated fully to projects that are aligned with the so-called Taxonomy Regulation (an EU classification system, determining whether an economic activity is environmentally sustainable). Transparency on the allocation of the bond proceeds, through a set of detailed reporting requirements (factsheets, yearly allocation reports, reports on the environmental impact), as to develop and support the market for higher quality green bonds. External review of the European green bonds. All European green bonds must be checked by external reviewers to ensure that the funds are being allocated to sustainable projects. External reviewers must be registered with and supervised by the European Securities Markets Authority (ESMA), as to ensure a high degree of market integrity. In order to encourage external reviewers to provide their services, it is proposed a transitional regime for the first 30 months following the entry into force of the Regulation.

The green bond issuers must allocate the proceeds, without deducting costs, only to finance or refinance eligible sustainable projects (fixed assets, expenditures or financial assets, or a combination thereof).
Sovereigns get a limited flexibility, as external reviews will apply to whole funding programmes, rather than to particular projects. Also, the review may be performed by existing state auditors, who are not under the obligation to be registered or supervised according to the Regulation. The decision to align with the requirements of the European green bond initiative would be voluntary for sovereigns to apply.

For certain, the European Commission will adopt delegated acts for the unitary application of the European Standard on the markets, in view of the expected technological progress in the field of environmental sustainability.

The Regulation could be available for use among issuers as early as Q2/Q3 2022.