Position Paper

Response to EC consultation on EU Green Bond Standard proposal

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General comments

The insurance industry welcomes the EC's proposal for an EU Green Bond Standard (EUGBS) as a framework to facilitate capital flows to green investments and transition projects, in line with the objectives of the European Green Deal. As Europe's largest institutional investor, the industry supports measures to stimulate the development of the green bond market.

Specifically, Insurance Europe welcomes the fact that the EUGBS:

- **Can help address the limited supply of attractive green assets and address risks related to greenwashing** by providing issuers with a credible framework and allowing investors to invest in EU green bonds with confidence on the basis of reliable, comparable and standardised information.
- **Captures the need to provide funding to sectors in transition to more sustainable business models**. Specifically, the provision of a taxonomy-alignment plan to allow for allocation in line with the taxonomy screening criteria within a five-year period is strongly appreciated.
- **Aims to stimulate the issuance not only of corporate, but also of sovereign green bonds**. The proposed incentives for sovereign issuers — eg on use of proceeds (UoP) based on the terms and conditions or external reviewers — can facilitate sovereign issuance of European green bonds. This is vital for funding the EU's transition to a zero-carbon economy and enhancing the availability of attractive sustainable assets.
- **Is based on market standards and could become a global standard for green bonds,** creating a level playing field for European investors. As capital markets and insurers' investments are global, the industry encourages the EC to collaborate internationally with other jurisdictions to promote the use of the standard by non-European issuers.
- **Is voluntary in nature and will not prevent the use of other sustainability bond standards.** This avoids potentially negative effects on the green bond market, which is fast-growing and international in nature.
- **Includes clear reporting requirements**. From an investor's perspective, easy access to reliable and usable information is important for making investment decisions and to guarantee adequate clarity and comparability.

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However, Insurance Europe would like to highlight some improvements to ensure the uptake of the EUGBS and issuers and insurers' confidence in the European green bonds. Specifically:

- **Grandfathering** - In the EC proposal, the designation of "European green bond" or "EUGB" is not maintained for the entire term of the bond through to maturity: if the taxonomy criteria change after issuance, the amended criteria need to be applied within five years. Such partial grandfathering can dampen investor interest. Investors need to be assured, at the time they make investment decisions, that green bonds will be green through to maturity.
  - Recommendation: The regulation should make it clear that outstanding EU green bonds, regardless of subsequent changes to the screening criteria of the EU taxonomy, remain EU green bonds. Once a bond has been qualified as "green" at issuance, even if the taxonomy screening criteria change and the bond no longer meets the new criteria, it should remain green for the entire term to maturity. If not, this will create uncertainty, confusion and market risk.
- **Taxonomy-alignment** — The taxonomy is based on criteria at activity level, while bond financing is usually at project level. For the EUGBS, the taxonomy has to be applied at project level.
  - Recommendation: Issuers will need some discretion over how to align projects under a EUGBS with the activity-based screening criteria (ie, how to apply the taxonomy at project level). Insurance Europe understands that issuers can follow existing market practices and rely on the TEG usability guide provided on the topic.
- **UoP for transition** — Insurance Europe strongly welcomes the alignment of eligible green projects with the taxonomy. This mitigates reputational and greenwashing risks. However, it is vital that European green bonds allow the financing of transitional projects. With high thresholds, there is a risk of reducing the number of offerings of EU bonds.
  - Recommendation: For EU green bonds to support more new green projects, it is important that issuers have access to a broader taxonomy, fully embedding the transitional aspect required to achieve the objectives of the European Green Deal. Specifically, portions of projects should be able to get financing under the EUGBS when they enable the "green" project (allowing the project to be more sustainable) or are transitioning. Eligible portions of projects could also cover assets that are on track to comply with the taxonomy, but not yet captured in it, for instance due to their R&D nature, location (eg projects outside the EU in developing or emerging markets). In practice and as a priority, it is vital that the taxonomy is expanded and fully supports the transition. This will also allow EU green bonds to finance a greater number of projects.
- **Accreditation scheme** — The accreditation criteria for EUGBS reviewers should prevent the creation of monopolistic market structures. By increasing issuance costs, these could act as barriers to issuing green bonds.
  - Recommendation: The implementation of the accreditation criteria and supervision for EUGBS reviewers should not result in situations in which ESG agencies hold market- and price-setting powers, as in the credit rating agency market. Similarly, the transitional registration should not make the issuance process more complex, particularly as it will last for only 30 months only.