

FESE response to the Commission consultation on a Green Bond Standard

2nd October 2020, Brussels

Questions on the EU Green Bond Standard

*What type of organisation are you, in relation to the green bond market?

- Issuer
- Investor
- Verifier/external reviewer/3rd party opinion provider
- Intermediary
- Market-infrastructure
- NGO
- Public Authority
- Trade or Industry Association
- Other

Please specify what type of organisation you are, in relation to the green bond market:

5000 character(s) maximum

Questions on the potential need for an official / formalised EU GBS

Q1. In your view, which of the problems mentioned below is negatively affecting the EU green bond market today? How important are they?

Please rate as follows: 1= no impact at all, 2= almost no impact, 3= some impact, 4= strong impact, 5= very strong impact

| | 1 | 2 | 3 | 4 | 5 | Don't know/no opinion/not applicable |
|--|---|---|---|---|---|--------------------------------------|
| Absence of economic benefits associated with the issuance of green bonds | | | | X | | |
| Lack of available green projects and assets | | | X | | | |
| Uncertainty regarding green definitions | | | X | | | |
| Complexity of external review procedures | | | X | | | |
| Cost of the external review procedure(s) | | | X | | | |
| Costly and burdensome reporting processes | | | X | | | |
| Uncertainty with regards to the eligibility of certain types | | | | X | | |

| | | | | | | |
|--|--|--|--|---|--|--|
| of assets (physical and financial) and expenditure (capital and operating expenditure) | | | | | | |
| Lack of clarity concerning the practice for the tracking of proceeds | | | | X | | |
| Lack of transparency and comparability in the market for green bonds | | | | X | | |
| Doubts about the green quality of green bonds and risk of green washing | | | | X | | |
| Other | | | | | | |

Please specify what you referred to as ‘other’ in question 1:

(5000 character(s) maximum)

Q2. To what extent do you agree that an EU GBS as proposed by the TEG would address the problems and barriers mentioned above in question 1?

Please rate as follows: 1= very negative impact, 2= rather negative impact, 3= no impact, 4= rather positive impact, 5= very positive impact

| | 1 | 2 | 3 | 4 | 5 | Don't know/no opinion/not applicable |
|---|---|---|---|---|---|--------------------------------------|
| Absence of economic benefits associated with the issuance of green bonds | | | X | | | |
| Lack of available green projects and assets | | | X | | | |
| Uncertainty regarding green definitions | | | | | X | |
| Complexity of external review procedures | | | X | | | |
| Cost of the external review procedure(s) | | | X | | | |
| Costly and burdensome reporting processes | | | X | | | |
| Uncertainty with regards to the eligibility of certain types of assets (physical and financial) and expenditure (capital and operating expenditure) | | | | X | | |
| Lack of clarity concerning the practice for the tracking of proceeds | | | | X | | |
| Lack of transparency and comparability in the market for green bonds | | | | | X | |
| Doubts about the green quality of green bonds and risk of green washing | | | | X | | |
| Other | | | | | | |

Please specify what you referred to as ‘other’ in question 2:

(5000 character(s) maximum)

Q3. To what extent do you agree with the proposed core components of the EU GBS as recommended by the TEG?

Please rate as follows: 1= strongly disagree, 2= rather disagree, 3= neutral, 4= rather agree, 5= strongly agree

| | 1 | 2 | 3 | 4 | 5 | Don't know/no opinion/not applicable |
|---|---|---|---|---|---|--------------------------------------|
| Alignment of eligible green projects with the EU Taxonomy | | | | X | | |
| Requirement to publish a Green Bond Framework before issuance | | | | | X | |
| Requirement to publish an annual allocation report | | | | | X | |
| Requirement to publish an environmental impact report at least once before final allocation | | | | X | | |
| Requirement to have the (final) allocation report and the Green Bond framework verified | | | | X | | |

Q3.1 - Please specify the reasons for your answer to question 3:

(5000 character(s) maximum)

FESE fully supports the proposed EU Green Bond standards (GBS) and believes the core components will ensure a robust framework that will enhance the green bond market in general to the benefit of issuers and investors alike. We believe the verification process will result in a consistent approach to comply with the standards and this will ensure the overall integrity of the framework.

As the Taxonomy is not yet fully developed to cover all sectors, there are some limitations in the requirements regarding the alignment of eligible green projects with the Taxonomy.

The requirement to publish a Green Bond Framework before issuance or allocation and an impact report is well embraced by the issuers that follow best market practices. This will not represent a significant change for market participants. At the same time, final verification should increase reporting credibility. However, in some cases it might not be possible to publish a timely impact report and some specific alleviations should be provided to address this.

Q4. Do you agree with the proposed content of the following documents as recommended by the TEG?

Please note that these reporting requirements refer only to the requirements in relation to the issued green bond (it is common in the green bond market to have reporting on the bond). These reporting requirements are not related to disclosure requirements for companies or funds, which arise from the EU Taxonomy Regulation or the Sustainability - related Disclosures Regulation.

a) The Green Bond Framework:

- Yes, I do agree with the proposed content of the Green Bond Framework
- No, I disagree with the proposed content of the Green Bond Framework
- Don't know / no opinion / not relevant

Please explain why you disagree with the proposed content of the Green Bond Framework:

(5000 character(s) maximum)

b) The Green Bond Allocation Report:

- Yes, I do agree with the proposed content of the Green Bond Allocation Report
- No, I disagree with the proposed content of the Green Bond Allocation Report
- Don't know / no opinion / not relevant

Please explain why you disagree with the proposed content of the Green Bond Allocation Report:

(5000 character(s) maximum)

c) The Green Bond Impact Report:

- Yes, I do agree with the proposed content of the Green Bond Impact Report
- No, I disagree with the proposed content of the Green Bond Impact Report
- Don't know / no opinion / not relevant

Please explain why you disagree with the proposed content of the Green Bond Impact Report:

(5000 character(s) maximum)

Q5 - Do you expect that the requirement to have the Green Bond Framework and the Final Allocation report verified (instead of alternatives such as a second-party opinion) will create a disproportionate market barrier for third party opinion providers that currently assess the alignment of EU green bonds with current market standards or other evaluation criteria?

- Yes
- No
- Don't know / no opinion / not relevant

Q5.1 - Please specify the reasons for your answer to question 5:

(5000 character(s) maximum)

Questions on the use of proceeds and the link to the EU Taxonomy

Q6 - Do you agree that 100% of the use of proceeds of green bonds should be used to finance or refinance physical or financial assets or green expenditures that are green as defined by the Taxonomy?

- Yes, with no flexibility
- Yes, but with some flexibility (i.e. <100% alignment)
- No

Don't know / no opinion / not relevant

Please indicate what thresholds you would suggest:

(Only values between 1 and 99 are allowed)

99 %

Please explain why you would suggest that thresholds:

(5000 character(s) maximum)

100% of the use of proceeds of green bonds should be used to finance or refinance physical or financial assets or green expenditures that are green as defined by the Taxonomy.

However, a small amount of flexibility should be allowed to cater for small levels of expenditure which might not have been envisaged by the TEG but may still have a genuine use case, taking into account the materiality level. This would provide issuers with a slight margin for eventual corrections in the green assets portfolio.

In the first three year of the EU GBS practices, if an issuer achieves using 85%-90% of the green bonds proceeds as required, this should be considered sufficient, provided that the issuer explains the reasons why 100% was not possible ('comply or explain' principle).

Q6.1 - Please specify the reasons for your answer to question 6:

(5000 character(s) maximum)

In principle, we support the TEG's proposal by which an EU GBS aligned green bond should be fully aligned with the EU Taxonomy for its use of proceeds. This would allow legal certainty and trust in the market. However, provided that the criteria for the remaining part of the use of proceeds which are not 100% aligned is clear, we would favour a more flexible approach. We envisage that the DNSH test as defined by the EU Taxonomy could apply i.e. the remaining part of the proceeds should be used in projects that meet the DNSH criteria as defined by the Taxonomy.

It should not be possible to label a bond as a green bond unless the use of proceeds are almost exclusively for 'Green' activities. Aligning as closely as possible with the Taxonomy ensures common understanding and definitions. However, as the TEG has likely not considered every possible eventuality some flexibility should be allowed for the use of proceeds.

Sometimes, especially in big and granular portfolios of assets like green mortgages, some issues can be identified. Additional threshold for the use of proceeds would provide issuers with a slight margin for eventual corrections.

Because the EU GBS is still in a development phase subject to future changes and the issuers are new to EU GBS practices, setting an objective of 85-90% will create more opportunities for issuers to participate.

Q7 - The TEG proposes that in cases where

1. the technical screening criteria have not yet been developed for a specific sector or a specific environmental objective or
2. where the developed technical screening criteria are considered not directly applicable due to the innovative nature, complexity, and/or the location of the green projects, the issuer should be allowed to rely on the fundamentals of the Taxonomy to verify the alignment of their green projects with the Taxonomy.

This would mean that the verifier confirms that the green projects would nevertheless

- i. substantially contribute to one of the six environmental objectives as set out in the Taxonomy Regulation,
- ii. do no significant harm to any of these objectives, and
- iii. meet the minimum safeguards of the Taxonomy Regulation.

Do you agree with this approach?

- Yes, both 1 and 2
- Yes, but only for 1
- Yes, but only for 2
- No
- Don't know / no opinion / not relevant

Q7.1 - Please specify the reasons for your answer to question 7:

(5000 character(s) maximum)

FESE supports the current technical screening criteria (TSC) of the Taxonomy Regulation which are very comprehensive. However, as the pace of innovation and change within the Green Bond/ESG finance space has lately been very rapid; ahead of any possible recalibration/amendments to the TSC, it would seem prudent to allow very limited deviations from the TSC, provided that verification with the above three points is confirmed. The work of the upcoming Platform on Sustainable Finance will be crucial to follow-up on innovation and changes within the ESG classification. It would also be important to ensure an inclusive and transparent work of the Platform.

Environmental issues should be addressed as soon as possible. Regulation should support market developments, especially where a high level of innovation is required. This process should be supported by independent verified assurance. It must be noted that part of the evaluation remains on the investors' side.

Flexibility of the GBS in terms of complying with the TSC is reasonable as the Taxonomy Regulation specifies that some economic activities do not yet have TSC. In addition, it remains to be seen whether external verifiers will be willing to take on this task.

Q7.2 - Do you see any other reasons to deviate from the technical screening criteria when devising the conditions that Green Bond eligible projects or assets need to meet?

- Yes
- No
- Don't know / no opinion / not relevant

Q7.3 - If you do see any other reasons, please clearly specify the reason for your answer and, where applicable, the respective area or (taxonomy-defined) activity:

(5000 character(s) maximum)

Q8 - As part of the alignment with the EU Taxonomy, issuers of EU Green Bonds would need to demonstrate that the investments funded by the bond meet the requirements on do-no-significant-harm (DNSH) and minimum safeguards. The TEG has provided guidance in both its Taxonomy Final Report and the EU GBS user guide on how issuers could show this alignment.

Do you foresee any problems in the practical application of the DNSH and minimum safeguards for the purpose of issuing EU Green bonds?

- Yes
- No
- Don't know / no opinion / not relevant

Q8.1 - Please specify the reasons for your answer to question 8:

(5000 character(s) maximum)

We do not expect any major difficulties in practically applying the DNSH and minimum safeguards but the Commission should monitor and assess how this will work in practice through the Platform on Sustainable Finance.

Since accredited verifiers are working individually, responses can differ significantly. A grant scheme to offset additional costs of external verification together with guidelines will help enforce this requirement more effectively.

DNSH and minimum safeguards are new concepts to the green bond market and will require the development of best practise in this area. Some first analyses conducted show that the due diligence process may be complicated and expensive.

Q9 - Research and Development (R&D) plays a crucial role in the transition to a more sustainable economy, and the proposed EU GBS by the TEG explicitly includes such expenditure as eligible use of proceeds.

Do you think the EU GBS should provide further guidance on these types of activities, to either solve specific issues with green R&D or further boost investment in green R&D?

- Yes, as there are specific issues related to R&D that should be clarified
- Yes, the proposed EU GBS by the TEG should be changed to boost R&D
- No, the proposed EU GBS by the TEG is sufficiently clear on this point
- Don't know / no opinion / not relevant

Q9.1 - If you do think the EU GBS should provide further guidance on these types of activities, please identify the relevant issues or incentives:

(5000 character(s) maximum)

Q9.1 - Please specify the reasons for your answer to question 9:

(5000 character(s) maximum)

The EU GBS should provide more specific guidance on these types of activities as R&D is fundamental for certain investments and help boost the amount of available eligible green projects.

Questions on grandfathering and new investments

Q10 - Should specific changes be made to the TEG's proposed standard to ensure that green bonds lead to more new green investments?

- Yes

- No
 Don't know / no opinion / not relevant

Q10.1 - If you are in favour of changes, please explain what changes should be made
5000 character(s) maximum)

Q10.1 - Please specify the reasons for your answer to question 10:
5000 character(s) maximum)

The standard already considers refinancing of green bonds. The proposed standard promotes comparability and high quality of disclosures for investors but financial incentives which are outside of the standard's scope should be further developed and implemented.

Q11 - The EU Taxonomy technical screening criteria will be periodically reviewed. This may cause a change in the status of issued green bonds if the projects or assets that they finance are no longer eligible under the recalibrated taxonomy.

In your opinion, should an EU Green Bond maintain its status for the entire term to maturity regardless of newly adapted taxonomy criteria?

- Yes, green at issuance should be green for the entire term to maturity of the bond
 No, but there should be some grandfathering
 No, there should be no grandfathering at all. If you no longer meet the updated criteria, the bond can no longer be considered green
 Don't know / no opinion / not relevant

Q11.1 - Please specify the reasons for your answer to question 11:
5000 character(s) maximum)

If the recalibration of the Taxonomy results in certain projects or assets no longer being deemed eligible, we consider that there should be a transitional period to allow the issuer to adapt to these developments. If, at some point in the future, an activity is identified as harmful, it would not be appropriate for it to continue benefiting from this label until the maturity date. Instead the issuer should be given five years to adapt its activities so that they can continue to be in compliance with the revised Taxonomy.

Rapid change in technical criteria may result in a situation where it is not possible to supplement the cover pool with new assets that could be treated as eligible. Since both the Taxonomy and the GBS are subject to future changes and developments, issuers need to be granted sufficient time to adjust and adapt. This can make the framework less burdensome and attract issuer to issue green bonds.

Q11.2 - If you think there should some grandfathering, what should the maximum amount of years for it?

- 3 years
 5 years

- 10 years
- 20 years
- Different approach all together
- Don't know / no opinion / not relevant

Q11.3 - Please explain different approach all together you would suggest:

(5000 character(s) maximum)

Question on incentives

Q12 - Stakeholders have noted that the issuance process for a green bond is often more costly than for a corresponding plain vanilla bond.

Which elements of issuing green bonds do you believe lead to extra costs, if any?

Please rate as follows: 1= No additional costs, 2= low extra cost, 3= extra cost, 4= high extra cost, 5= very high extra cost

| | 1 | 2 | 3 | 4 | 5 | Don't know/no opinion/not applicable |
|--|---|---|---|---|---|--------------------------------------|
| Verification | | | | X | | |
| Reporting | | | X | | | |
| More internal planning and preparation | | | | X | | |
| Other | | | | X | | |

Please specify what are the other elements of issuing green bonds you are referring to:

(5000 character(s) maximum)

For an issuer, extra costs are linked to the verification and reporting requirements, especially for the smaller issuers. An increase in labour resource will be required for this exercise. In addition, there will be more internal planning and preparation, R&D activities, which may also create extra costs for issuing a green bond.

Q12.1 - Please specify the reasons for your answer to question 12, and if possible, provide the estimated percentage and monetary increase in costs from issuing using the EU GBS, or - ideally - the costs (or cost ranges) for issuing green bonds under the current market regimes and the estimated costs (or cost range) for issuing under the EU GBS:

(5000 character(s) maximum)

As far as we know, first issuance under the current market regime is 100 000 EUR. Some members have indicated that the estimated increase under EU GBS may be 10% to 20% - mainly due to DNSH and social safeguards. For smaller issuers this represents a significant cost which is currently not counterbalanced by financial incentives.

Q13 - In your view, how would the costs of an official standard as proposed by the TEG compare to existing market standards?

- 1 - Substantially smaller

- 2 - Somehow smaller
- 3 - Approximately the same
- 4 - Somehow higher
- 5 - Substantially higher
- 3 - Approximately the same

Q13.1 - Please specify the reasons for your answer to question 13:

(5000 character(s) maximum)

As the GBS are not yet widely used in practice, it remains to be seen how costs would be affected. In general, FESE is of the view that the EU GBS will result in increased costs as there will be more reporting requirements and the verification process may also lead to more expenses for the issuer.

Despite the fact that technical criteria are provided within the Taxonomy we can expect higher cost as there is no market practice concerning DNSH and social safeguards. Additional external verifications are also required compared to current best practices.

However, we believe that these potential additional costs will positively contribute to a more transparent green bond ecosystem, providing trust and legal certainty to market participants.

Q14 - Do you believe that specific financial or alternative incentives are necessary to support the uptake of EU green bonds (green bonds following the EU GBS), and at which level should such incentives be applied (issuers and/or investor)?

Please express your view on the potential impact:

Please rate as follows: 1= very low impact, 2= rather low impact, 3= a certain impact, 4= rather high impact, 5= very high impact

| | 1 | 2 | 3 | 4 | 5 | Don't know/no opinion/not applicable |
|--|---|---|---|---|---|--------------------------------------|
| Public guarantee schemes provided at EU level, as e.g. InvestEU | | | | X | | |
| Alleviations from prudential requirements | | | X | | | |
| Other financial incentives or alternative incentives for investors | | | | X | | |
| Other incentives or alternative incentives for issuers? | | | | | X | |

Q14.1 - Please specify the reasons for your answer to question 14, in particular if you indicated an important impact of “other incentives or alternative incentives”:

(5000 character(s) maximum)

FESE generally supports the incentives proposed by the TEG EU GBS Report in its chapter five.

https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/190618-sustainable-finance-teg-report-green-bond-standard_en.pdf

Given the likely higher costs of issuing a green/social bond, but the obviously desirable circumstances, it would be advisable to offer issuers in particular an incentive to issue these kinds of instruments, such as tax incentives. When green bonds would require a long

maturity period, the investors should have some incentives to offset risks (for example an EU guarantee).

In current market conditions, green issuance allows building bigger demand as a result of a broader investor base. As a consequence, spread can be tightened by around 2 basis points. More incentives are required to build greater interest from the issuer side especially in the area of tax incentives. This also refers to the investor side. Investment limits should also be taken into account.

In general, FESE believes that prudential regulation should not be used to stimulate certain market behaviour. Instead, prudential regulation should be risk-based.

Other questions related to the EU GBS

The EU GBS as recommended by the TEG is intended to apply to any type of issuer: listed or non-listed, public or private, European or international.

Q15 - Do you foresee any issues for public sector issuers in following the Standard as proposed by the TEG?

- Yes
- No
- Don't know / no opinion / not relevant

Q15.1 - Please explain your answer to question 15:

(5000 character(s) maximum)

Since the purpose of GBS is to be globally relevant and accessible to issuers located in the EU as well as to issuers located outside the EU. There should be no separation among different categories of sectors or issuers.

Q16 - Do you consider that green bonds considerably increase the overall funding available to or improve the cost of financing for green projects or assets?

- Yes
- No
- Don't know / no opinion / not relevant

Q16.1 - Please explain your answer to question 16.

If possible, please provide estimates as to additional funds raised or current preferential funding conditions:

(5000 character(s) maximum)

In current market conditions, green issuance allows building bigger demand as a result of a broader investor base. Depending on market conditions, green issuances allow to build a two times bigger order book compared to a non-green one. As a consequence, spread can be tightened by around 2 basis points.

Questions on Social Bonds and COVID19

Q17 - To what extent do you agree with the following statements?

Please rate as follows: 1= strongly disagree, 2= rather disagree, 3= neutral, 4= rather agree, 5= strongly agree

| | 1 | 2 | 3 | 4 | 5 | Don't know/no opinion/not applicable |
|---|---|---|---|---|---|--------------------------------------|
| Social bonds are an important instrument for financial markets to achieve social objectives. | | | | X | | |
| Social bonds targeting COVID19 are an important instrument for financial markets in particular to help fund public and private response to the socio- economic impacts of the pandemic. | | | | | X | |
| Social bonds targeting COVID19 are mostly a marketing tool with limited impact on funding public and private responses to the socio- economic impact of the pandemic. | X | | | | | |
| Social bonds in general are mostly a marketing tool with limited impact on social objectives. | X | | | | | |
| Social bonds in general require greater transparency and market integrity if the market is to grow. | | | | | X | |

Q18 - The Commission is keen on supporting financial markets in meeting social investment needs

Please select one option below and explain your choice:

- The Commission should develop separate non-binding social bond guidance, drawing on the lessons from the ongoing COVID19, to ensure adequate transparency and integrity
- The Commission should develop an official EU Social Bond Standard, targeting social objectives.
- The Commission should develop an official “Sustainability Bond Standard”, covering both environmental and social objectives.
- Other Commission action is needed
- No Commission action is needed in terms of social bonds and COVID19.

Please specify what other Commission action(s) is needed:

(5000 character(s) maximum)

Q18.1 - Please explain your answer to question 18

(5000 character(s) maximum)

Ideally, leveraging the social bond principles already laid out, the EU should endorse this through an official standard.

Q19 - In your view, to what extent would financial incentives for issuing a social bond help increase the issuance of such bonds?

- 1 - Very strong increase
- 2- Rather strong increase
- 3 - Rather low increase

- 4- Very low increase
- 5 - No increase at all

Q19.1 - Please explain what kind of financial incentives would be needed:

(5000 character(s) maximum)

Financial incentives could take the form of income tax relief for investors, tax incentives for issuers, tax incentives for fund recipients of this mechanism, etc.

In general, FESE believes that prudential regulation should not be used to stimulate certain market behaviour. Instead, prudential regulation should be risk-based.

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) here:

The maximum file size is 1 MB.

You can upload several files.