



FESE Position Paper on the Proposal for a European Green Bond Standard

Brussels, 13th September 2021

FESE welcomes the Commission's proposal for a European Green Bond (EuGB) Standard. We believe that this voluntary, inclusive and Taxonomy-aligned Standard will make a significant contribution to improving the overall green bond market, to the benefit of both issuers and investors. It would provide greater transparency and comparability to the market, clarify the definitions of green projects, and reduce the risk of greenwashing. In addition, the use of the Standard would make it easier for issuers to raise large-scale financing for their environmentally friendly investments, boosting their sustainable transition.

Mindful of the remarkable role that EuGB would play already in the near future, we would like to take this opportunity to provide some additional considerations on the Commission's proposal.

Flexibility

For the EuGB Standard to achieve its climate and environmental objectives, it is essential that the use of proceeds is fully aligned with the EU Taxonomy. While there is no doubt that bonds' proceeds must meet the requirements for environmentally sustainable economic activities under the Taxonomy, it may be worth considering some flexibility in their allocation in some circumstances. This could be particularly useful at the beginning when the EuGB Standard is still under development and issuers are new to EuGB Standard practices. For example, we would suggest setting a Taxonomy-alignment target of 85-90% for the first three years, provided that the issuer explains the reasons why 100% alignment was not possible. This would create more opportunities for issuers to participate and provide them with a slight margin for eventual corrections in the green assets portfolio.

In addition, FESE welcomes the possibility, foreseen in Art. 6, to allocate the proceeds to economic activities that will meet the Taxonomy requirements within a defined period of time specified in a Taxonomy-alignment plan. We expect this flexibility to enable issuers and reviewers to rely on the fundamentals of the Taxonomy to verify the configuration of their green projects in specific cases. For instance, these could include the situation where technical screening criteria have not yet been developed for a specific sector or a specific environmental objective, or where the developed technical screening criteria are considered not directly applicable due to the innovative nature, complexity, and/or location of the green projects.

FESE also supports the inclusion of grandfathering provisions in the EuGB Standard. If the recalibration of the Taxonomy renders certain projects or assets no longer eligible, issuers should be given sufficient time to adjust and adapt to these developments. In this respect, issuers might partially benefit from grandfathering provisions if certain criteria of the Taxonomy were to change during the lifecycle of a bond. According to the proposal, if the relevant Delegated Acts (DAs) are amended, issuers should allocate proceeds by applying the amended DAs within five years. While we welcome this partial grandfathering, the rules should support full grandfathering (as recommended by the Technical Expert Group) which would make the framework less burdensome and attract more issuers to issue green bonds.

Moreover, we would appreciate further considerations on what will happen in relation to the 'old' green bonds once the new EU Green Standard's aligned bonds are issued. On this matter, we suggest including some transitional elements and incentives not to leave these instruments behind.

For the sake of understanding, it must be made clear how existing frameworks and new factsheets shall coexist. For example, a EuGB could be issued under an existing framework and prospectus, that also encompass existing non-European green bonds (e.g., aligned with ICMA GBP). We consider that pre-existing prospectuses can, under certain circumstances, be amended as to allow for the issuance of EuGB, but specifications must be defined.

Lastly, the Standard provides some flexibility to sovereign issuers, notably regarding the selection of a reviewer. FESE believes that such adaptability should also be granted to supranational institutions and development banks.

Incentives

The Standard would increase investors' trust, which can translate into better pricing of bonds and encourage issuers to use it. Nevertheless, specific incentives would be needed to boost the upcoming EuGB market, especially with respect to SMEs, given the likely higher costs of issuing green bonds and the stringent requirements related to the publication of the allocation and impact reports and obtaining the pre- and post-issuance external reviews. Since the EuGB will be used on a voluntary basis we would highly recommend specific reliefs and incentives aimed at fostering the issuance of EuGB by SME issuers. This would be in line with the general aim of the Commission's Capital Market Union to achieve inclusiveness within the EU financial markets.

In this regard, tax reliefs for issuers and investors would increase both the supply and demand for EuGB as well as tax incentives for fund recipients of this mechanism. Similarly, the inclusion of an EU guarantee for bonds requiring a long maturity period should be considered as this would allow investors to have some incentives to offset risks. As a general remark, FESE believes that prudential regulation should not be used to stimulate certain market behaviour. Instead, prudential regulation should be risk-based.

Social element

The EuGB does not currently cover EU social bonds, but the issuer will have to respect minimum social safeguards as per the EU Taxonomy Regulation. In light of the significant increase in the issuance of sustainability bonds over recent years as well as the issuance of green bonds characterised by 'social' element, we would support an extension of the scope in the future, which could facilitate a potential increase in issuance and reducing potential reputational risk for issuers.

Reporting and supervision

FESE acknowledges the requirements for issuers to publish a green bond factsheet, an environmental impact report and EuGB annual allocation reports.

With reference to EU green bond factsheet, Art. 12 of the Proposal sets out the requirements for those EuGB for which a prospectus must be published, including the integration of the information contained in the EuGB factsheet. In order to be incorporated by reference within the prospectus, the EuGB factsheet must have been subject to a pre-issuance review by an external reviewer. Whilst we support the overarching requirement for a verified pre-issuance factsheet to be in place prior to issuance, we would like to point out that potential difficulties may arise in particular with respect to first time issuers of an EMTN using a base prospectus and final terms for the issuance and listing of their bonds which: (i) have not issued a green bond before but intend on doing so in the future; and (ii) are going to include the disclosure on such prospective green bonds within the base prospectus but have not yet completed the EuGB factsheet.

We believe that the requirement to obtain the pre-issuance review of the EuGB factsheet prior to the issuance of EuGB should not prevent issuers from providing disclosure on the green bonds and their alignment to the EuGB Standard, within the base prospectus. Therefore, sufficient flexibility must be conferred to avoid that the issuer, pending the obtainment of the pre-issuance review, will have to proceed with the approval of the base prospectus for the issuance of green bonds which would not be considered aligned with EuGB and will then be required to either supplement or update their base prospectus once a factsheet has been prepared. This may result in additional costs and may deter such companies to carry out issuances aligned with EuGB Regulation provisions.

Overall, the publication of the different factsheets and reports would surely result in increased transparency and credibility for the EuGB market. That said, in some cases, issuers might also require some flexibility regarding the delay of the publication of the impact report and some specific alleviations should be provided to address this. Besides, companies may encounter problems with the timing of the publication of the annual EuGB reports and the annual business reports, which may lead to risks of misalignment between the two datasets. Issuers whose securities which are admitted to trading, would also benefit from flexibility to publish all EuGB related documentation on different websites, including on the website of trading venues where the admission to trading is sought. For these reasons, we suggest aligning the publication regime with Art. 21(2) of the Prospectus Regulation.

The pre- and post-issuance reviews in place for some of these reports by external reviewers is also expected to enhance the reporting credibility. ESMA is set to play a major role to that end, being responsible for authorising and supervising the external reviewers as well as developing the corresponding draft regulatory technical standards. It should be recalled, however, that ESMA's additional powers should not alter the appropriate balance between the roles of NCAs and ESMA to ensure a level playing field and consistent application of rules across the EU.

Global compatibility

It is important that the Standard is compatible with other taxonomies and frameworks developed by major jurisdictions or global organisations, i.e. that those taxonomies and frameworks can be brought into alignment under the EU Taxonomy. Ultimately, issuers from non-EU markets should be able to access EU capital markets.

The Federation of European Securities Exchanges (FESE) represents 36 exchanges in equities, bonds, derivatives and commodities through 18 Full Members from 30 countries, as well as 1 Affiliate Member and 1 Observer Member.

At the end of August 2021, FESE members had 9,316 companies listed on their markets, of which 13% are foreign companies contributing towards European integration and providing broad and liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access capital markets; 1,341 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their RM and MTF operations, FESE members are keen to support the European Commission's objective of creating a Capital Markets Union.

FESE is registered in the European Union Transparency Register: 71488206456-23.