

EU Green Bond Standard (EU GBS)

By

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1 **Executive Summary**

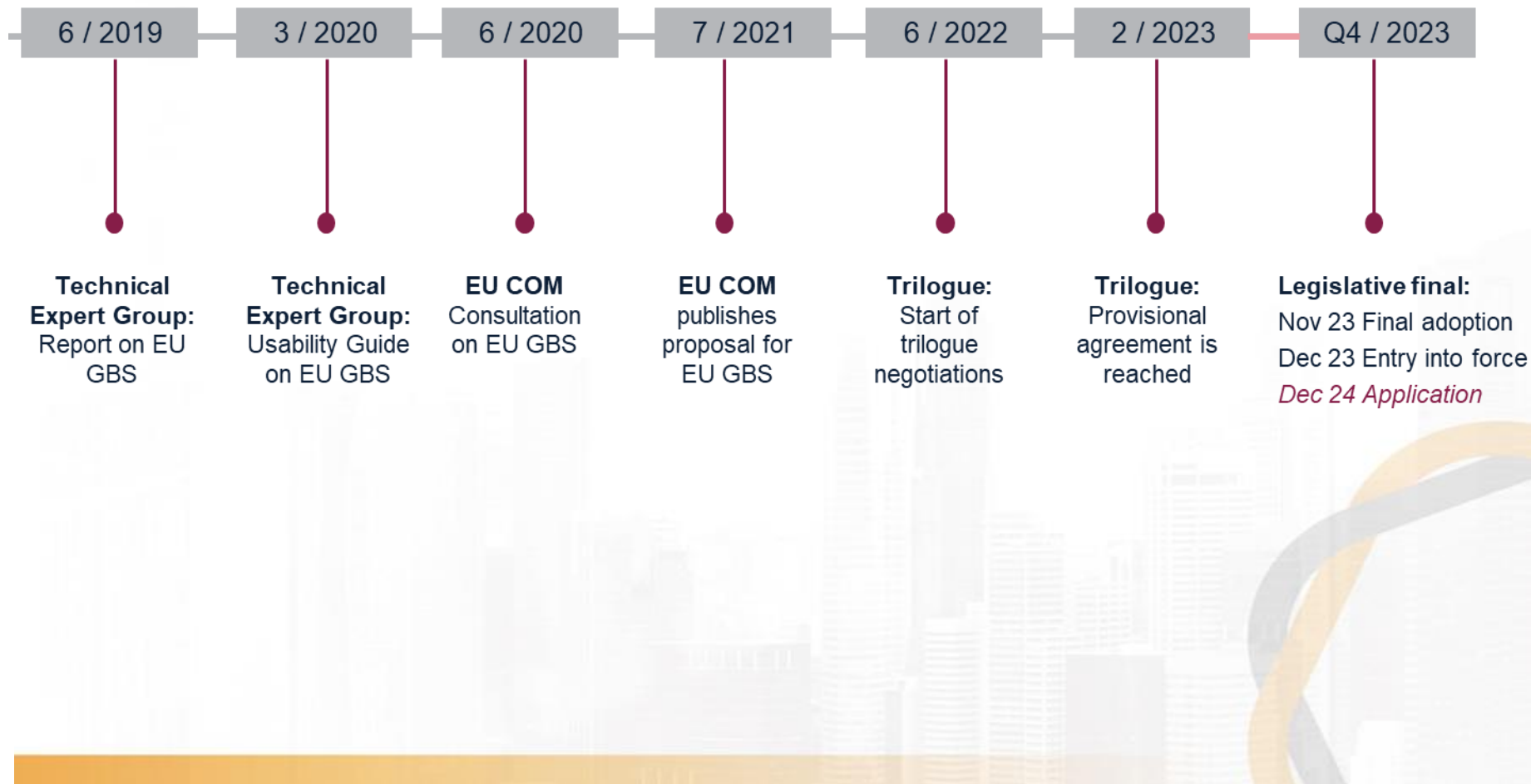
2 EU GBS features

3 ICMA vs. EU GBS

A “European green Bond” or “EuGB”^{*} is:

- ...used on a **voluntary basis** by all **European and non-European** green bond issuers.
- ...allocate the proceeds for **eligible fixed assets, capex, opex and financial assets**.
- ...defines what is “green” by aligning the **use of proceeds with the EU Taxonomy** (except for a **15 % flexibility pocket** allowing the allocation towards Taxonomy-eligible economic activities where technical screening criteria (TSC) have not been developed yet).
- ...provides that in case of amended TSC issuers have a **7-year period** in order to replace allocations or align existing allocations with the new criteria (“**Grandfathering**”).
- ...ensure a high level of **transparency to avoid greenwashing** by verified **pre- and post issuance reports**.
- ...sets high standards for **ESMA-registered, external reviewers** and **enforcement power for authorities**.
- ...foresees **voluntary templates** for issuers of regular green bonds (e.g. issued after ICMA GBP)

^{*} Designation acc. to Art. 3 of the European Green Bond Standard (“EU GBS”)





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Scope

- The EU GBS is applicable on a **voluntary basis** for **any bond issuer**, including issuers of **covered bonds** as well as **originators of securitisations** and **sovereigns**
- Applicable for **Use of proceeds bonds** as well as **general purpose bonds** (sustainability-linked bonds)
- Applicable for **EU and Non-EU issuers** as long as a **prospectus** has been approved
 - Sovereigns are exempt from prospectus
 - Non cooperative jurisdictions for tax purposes or high risk third countries excluded
- Optional sustainability disclosures: On a voluntary basis issuers of bonds **marketed as environmentally sustainable** and **sustainability-linked bonds** may **use templates (to be developed)**

Use of proceeds (Art. 4)

- Proceeds shall be only and fully allocated **according to taxonomy requirements** to the following, or a combination thereof:
 - **Fixed assets**
 - **Capital expenditures** (which meet or will meet taxonomy requirements)
 - **Operating expenditures** (incurred within three years before issuance)
 - **Financial assets** (created not later than 5 years after issuance of EuGB)
 - **Assets and expenditures of households**
- Issuers may **deduce issuance costs** (But: To be explained in EU Green Bond Factsheet)
- **Portfolio approach**: Proceeds may be allocated to a portfolio of fixed assets / financial assets as long as the total value exceeds total value of outstanding bonds

Flexibility pocket (Art. 5)

- Issuers may allocate **up to 15%** of the proceeds to economic activities that **comply with the taxonomy requirements**, with the exception of technical screening criteria (TSC) where:
 - **TSC have not entered into force** for the relevant activity by the date of issuance or
 - **Activities are in the context of international support** contributing to the environmental objectives
- **Activities concerned and estimated share of proceeds** intended to finance such activities shall be described in the EU Green Bond factsheet
- Issuers **still need to comply with Do No Significant Harm (DNSH)-criteria** of Appendices A, B, C and D of Annex I to the Climate Delegated Act

CapEx plan (Art. 7)

- Issuers **must publish a CapEx plan** where use of proceeds for capital and operating expenditures will meet taxonomy requirements, where the following applies:
 - CapEx Plan must **specify a deadline** for capex and opex to meet taxonomy requirements (must be before maturity of the EuGB)
 - **Assessment from an external reviewer** about expected taxonomy alignment is necessary (Shall be provided within 60 days after abovementioned deadline)
 - The **prospectus shall include a summary** of the CapEx Plan
 - **Report on the progress** made on the implementation of CapEx plan **in annual allocation reports**

Grandfathering (Art. 8)

- Issuers shall ensure that EU Green bond **proceeds are allocated in alignment** with technical screening criteria **(TSC) applicable at the time of issuance** of the bond.
- But, **where TSC are amended** after the issuance, following proceeds must be aligned within a **7 years grandfathering period** after their entry into application:
 - Proceeds that are not yet allocated, and
 - Proceeds covered by a CapEx plan that have not yet met taxonomy requirements
- Issuers shall **draw up a plan for aligning proceeds** and **mitigating negative consequences** if at risk of not meeting TSC. Also, issuers shall **publish the plan** and **submit it to external review**.
- **Portfolio approach**: Issuers shall **include only those assets** where the economic activity is aligned with TSC applicable at **some point of time during 7 years prior to publication of allocation report** (which is done annually until full allocation), including allocated proceeds.

Transparency and external review requirements (Art. 10-12)

➤ EU Green Bond factsheet (Annex I)

- Must be completed **prior to issuance**
- Must have **pre-issuance review** with a positive opinion by external reviewer

➤ Allocation Report (Annex II)

- **Annually until full allocation** is reached
- May be used for one or several EuGBs
- Shall be **verified after the full allocation** of proceeds (post-issuance review)
- Needs to be published within 270 days after reporting period
- External reviewers have at least 90 days for their review

➤ Impact Report (Annex III)

- Shall be **published after the full allocation** of proceeds and once during bond lifetime
- May cover several issuances of EuGBs
- **“May” obtain external review**

Prospectus and issuer's website (Art. 14 & 15)

➤ Prospectus

- “European green bond” or “EuGB” designation shall be used only for bonds for which a **prospectus has been published** in accordance with the Prospectus Regulation ((EU) 2017/129)
- Shall include **information about the use of proceeds** (currently revised by **EU Listing Act**)
- May incorporate information from EuGB Factsheet **by reference**

➤ Issuer's website

- Issuers shall publish (**free of charge**) until at least **12 months after maturity** of the bond:
 - **EuGB Factsheet** (before the issuance of the bond, including pre-issuance review)
 - **Prospectus** (before the issuance of the bond)
 - **Annual Allocation Reports** (without undue delay, including post-issuance review)
 - **Impact Report** (without undue delay, including external review where applicable)
 - **CapEx plan** (where applicable)

Securitisations bonds as EuGBs (Art. 16 – 19)

- Proceeds refer to *“Proceeds obtained by the originator from selling the securitised assets to the SSPE”*:
 - That is, the **securitised pool does not necessarily consist** of green assets
- Prospectus shall include a statement, that **use of proceed commitments fall under the originator**
- Prospectus, EuGB Factsheets and allocation reports shall include:
 - the share of securitised exposures with **taxonomy eligible activities**
 - thereof: the share of **taxonomy aligned securitised exposures**
 - thereof: the share of securitised exposures **not meeting DNSH-criteria**
- Bonds issued for the purpose of **synthetic securitisation** shall **not be eligible** to use the designation ‘European green bond’ or ‘EuGB’

Optional disclosures (Art. 20 – 21)

- EU COM to publish guidelines to establish **voluntary templates for pre-issuance disclosures** (12 months after entry into force of EU GBS)
 - For **bonds marketed as environmentally sustainable**
 - Intent to use external reviewer
 - Intent to use the “common template” for periodic post-issuance disclosures (Art. 13h)
 - Contribution of EuGB to issuer’s transition plans
 - Contribution of EuGB to taxonomy-aligned turnover/capex/opex (where applicable)
 - For **Sustainability-linked bonds**
 - Intent to use external reviewer
 - Intent to use the “common template” for periodic post-issuance disclosures (Art. 13h)
 - Rationale, level of ambition, materiality, and calculation methodology of KPIs
 - Contribution of EuGB to issuer’s transition plans
 - Contribution of EuGB to taxonomy-aligned turnover/capex/opex (where applicable)
 - Description of bond structure, including coupon adjustment mechanism

External reviewers (Art. 22 ff.)

- **Registration regime** and **ongoing supervision** of external reviewers **by ESMA**
- A **transitional regime** will be established **for the first 18 months** after the application
- External reviewers must adhere to **organizational, procedural, and governance prerequisites**, in addition to **pre-issuance and post-issuance review criteria**
- Procedures for **equivalence assessment**, recognition or endorsement for **third country reviewers**



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ICMA vs. EU GBS

Some fundamental differences

	ICMA GBP	EU GBS
Main goal	ICMA GBP are „voluntary process guidelines“	EU GBS is designed to be “the gold standard” for green bonds
Regulation approach	Principle-based	Rule-based
Main information source	Green Bond Framework (Key recommendation)	EuGB Factsheet (mandatory)
Scope	Use of proceeds bonds only	Use of proceeds bonds as well as general purpose bonds
Pre-issuance review	Key recommendation of a Green Bond Framework review	Mandatory review of EuGB Factsheet
Post-issuance review	Key recommendation of a review of management and allocation of funds	Mandatory review of allocation reports and binding time targets
Requirements for reviewer	No subject matter	Registration and supervisory regime
Definition of „green“	Defined by the issuer (Green Bond framework)	Defined via EU-Taxonomy and Delegated Acts