EU Green Bond Standard (EU GBS)

By

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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”)
Executive Summary
EU GBS at a glance

- **6 / 2020**: EU COM Consultation on EU GBS
- **7 / 2021**: EU COM publishes proposal for EU GBS
- **6 / 2022**: Trilogue: Start of trilogue negotiations
- **2 / 2023**: Trilogue: Provisional agreement is reached
- **Q4 / 2023**: Legislative final: Nov 23 Final adoption
Dec 23 Entry into force

*Dec 24 Application*
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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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Some fundamental differences

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