

## EU GREEN BOND STANDARD Current State of Play

**Author:** Ted Kronmiller

**Date:** 28 February 2023

Negotiators of the European Council ('EC') and the European Parliament ('EP') reached a provisional agreement on the creation of a European Green Bond Standard ('EU GBS'). The prospective EU GBS provides uniform requirements for issuers financing EU Taxonomy ('EUT') aligned economic activities<sup>1</sup>. Key highlights of the EU GBS Provisional Agreement include:

- 100% of the proceeds from the issuance will need to be invested in economic activities that are aligned with the EUT in order for a bond to be considered an 'EU Green Bond'
- Registration system and supervisory framework for external reviewers of EU Green Bonds established
- A flexibility pocket of 15% is provided for sectors not yet covered by the EUT and for certain very specific activities in order to provide usability of the European green bond standard from the start of its existence. The use and the need for this flexibility pocket will be re-evaluated as the EU's transition towards climate neutrality accelerates and the number of green investment opportunities that are expected to become available in the coming years increases.

The EUT and prospective EU GBS encompass:

- Companies (over 500 employees) that fall under the Non-Financial Reporting Directive ('NFRD')
- Financial market participants, including occupational pension providers, that offer and distribute financial products in the EU (including those from outside the EU).
- EU and its member states when setting public measures, standards or labels for green financial products or (corporate) bonds
- Member States will supervise issuers, ensuring compliance with their obligations under the EU GBS.

An EU Green Bond can be issued by an issuer outside of the EU. The prospective EU GBS covers areas including<sup>2,3</sup>:

- Use-of-proceeds
- Process for project evaluation and selection
- Management of proceeds
- Reporting

---

<sup>1</sup> European Council of the European Union. (28 February 2023). Sustainable Finance: Provisional Agreement Reached on European Green Bonds. Available [here](#).

<sup>2</sup> European Commission. (6 July 2021). Regulation of the European Parliament and of the Council: Proposed EU Green Bond Standard. Available [here](#).

<sup>3</sup> European Commission: EU Technical Expert Group on Sustainable Finance. (9 March 2020). Usability Guide for the EU Green Bond Standard. Available [here](#).

The EUT is a voluntary framework and companies can use the criteria as inputs to their climate change mitigation and adaptation strategies and plans. Companies and project sponsors can therefore choose to meet the criteria of the EUT if they wish to substantially contribute to objectives while meeting DNSH and Minimum Safeguards. With mandatory disclosures under the Taxonomy Regulation, investors can choose to use EUT criteria in their due diligence for screening and identifying sustainable investment opportunities aiming to achieve a positive environmental impact<sup>4,5</sup>.

In order to be EUT-aligned an economic activity must substantially contribute to at least one of the EUT's Six Objectives while Doing No Significant Harm ('DNSH') to any other objective while meeting the minimum safeguards<sup>6,7,8</sup>. The six objectives include:

- Climate Change Mitigation
- Climate Change Adaptation
- Sustainable Water Use and Protection of Water and Marine Resources
- Transition to a Circular Economy
- Pollution Prevention and Control
- Protection and Restoration of Biodiversity and Ecosystems

EUT-Alignment serves as a foundation for the EU GBS and reporting under frameworks including:

- Sustainable Finance Disclosure Regulation ('SFDR')
- Corporate Sustainability Reporting Directive ('CSRD')
- Non-Financial Reporting Directive ('NFRD')
- Markets in Financial Instruments Directive II ('MiFID II')

Since the EUT defines sustainability at the level of an economic activity a company itself cannot technically be aligned but the underlying activities of the company can be aligned.

The provisional agreement for the EU GBS must be confirmed by the European Council and the European Parliament and adopted by both institutions before it is final. After it becomes final, it will be effective 12 months after its entry into force.

While the EU Green Bond Standard is yet to be finalized, bond issuance labeled as 'green bonds' under the Climate Bonds Initiative ('CBI') Standard Version 3.0 is depicted below.

---

<sup>4</sup> European Commission. (2022). FAQ: What is the EU Taxonomy and How Will it Work in Practice. Available [here](#).

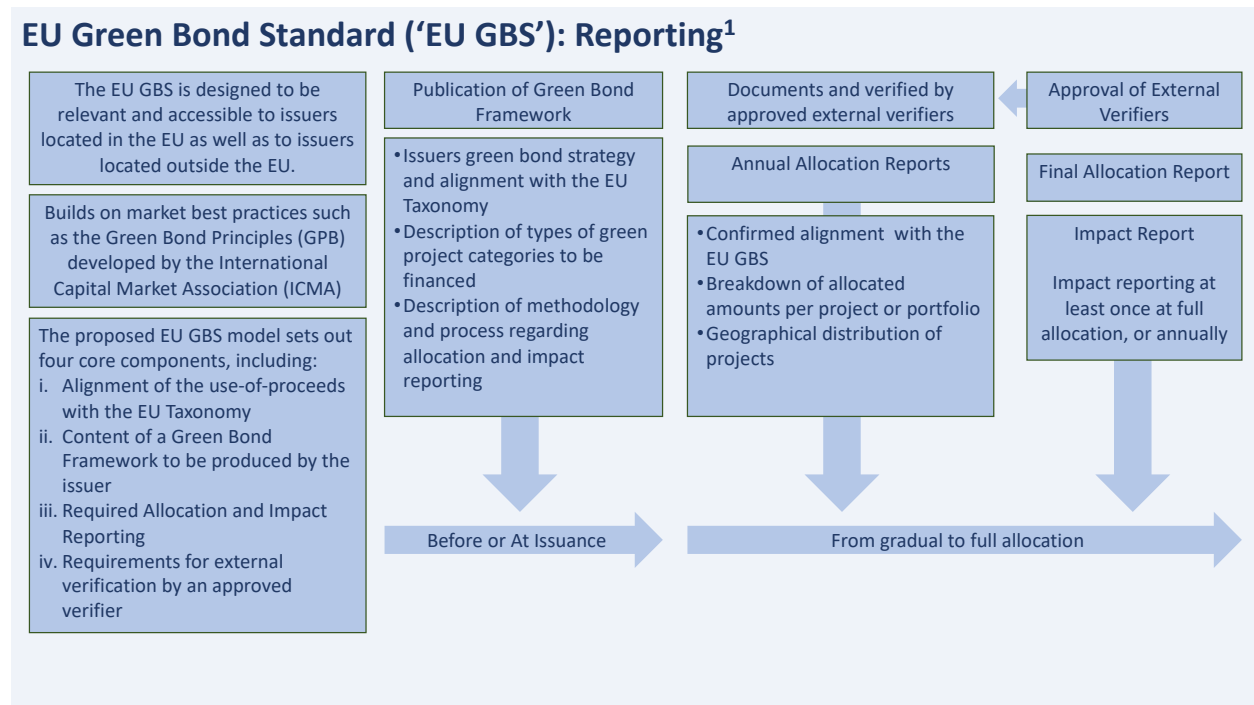
<sup>5</sup> European Commission. Joint Research Centre ('JRC'). Working Papers in Economics and Finance. (2020). Green Bonds as a Tool Against Climate Change. Available [here](#).

<sup>6</sup> Official Journal of the European Union (22 June 2020). Taxonomy Regulation. EU Taxonomy on Sustainable Activities. Available [here](#).

<sup>7</sup> European Commission: EU Technical Expert Group on Sustainable Finance. (13 March 2020). Taxonomy Tools. Available [here](#).

<sup>8</sup> European Commission: EU Technical Expert Group on Sustainable Finance. (9 March 2020). Technical Report. Taxonomy: Final Report of the Technical Expert Group on Sustainable Finance. Available [here](#).

**Figure 1: EU Green Bond Standard Reporting Framework**



**Figure 2: “Do No Significant Harm” Assessment Criteria Diagram**

