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EU Publishes Green Bond Standard

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On February 28, the Council of the European Union and the European Parliament reached a deal to draw up European Green Bonds Standards ("EUGBS"). The aim of the EUGBS is to establish the leading global framework for green bonds. According to Paul Tang, rapporteur, this creates "a gold standard that green bonds can aspire to." The EUGBS have been designed to facilitate the financing of sustainable investments by companies and public authorities that issue green bonds, while meeting rigorous sustainability requirements and protecting investors against greenwashing.

Although the provisional agreement's full wording and details have not yet been disclosed, the key details announced to date are:

- **Transparency.** Companies that use the EUGBS when marketing a green bond must be engaged in a green transition, as they will be required to disclose substantial information about how the bond's proceeds will be used and how those investments feed into the transition plans of the company as a whole.

  In addition, "[t] he disclosure requirements, set out in template formats, will also be open to be used by companies issuing bonds which cannot fulfil all the requirements to qualify for the EUGBS. These companies would thereby subject themselves to ambitious transparency requirements and, as a result benefit from better trust among investors."

- **External reviewers.** The EUGBS establishes a registration system and supervisory framework for external reviewers of European green bonds. It is envisaged that independent entities will be responsible for assessing whether a bond is green. The EUGBS "stipulates that any actual or even potential conflicts of interest are properly identified, eliminated or managed, and disclosed in a transparent manner. Technical standards may be developed specifying the criteria to assess the management of conflicts of interest."

- **Flexibility.** Until the EU taxonomy framework is "fully up and running," which is projected to be January 2027, "legislators agreed to allow 15% of the proceeds from a green bond to be invested in economic activities that comply with the taxonomy requirements but for which no technical screening criteria have yet been established to determine if that activity contributes to a green objective (technical screening criteria)."

In its accompanying press release, the European Parliament acknowledges that the EUGBS will (i) "enable investors to identify high quality green bonds and companies, thereby reducing 'greenwashing,'" (ii) "clarify to bond issuers which economic activities can be undertaken with the bond's proceeds," (iii) "set in place a clear reporting process on the use of the proceeds from the bond sale," and (iv) "standardize the verification work of external reviewers which will improve trust in the review process."

Taking the Temperature: The agreement on EUGBS is still provisional as it needs to be confirmed and adopted by the Council and the European Parliament before it is final. The overall effect of the EUGBS could be a sharp reduction in the volume of debt allowed to carry a sustainable label and, potentially, reducing misleading claims or greenwashing in the bond market. The framework is significant given that this is a large, and largely unregulated, asset class – over $400 billion of green bonds were issued in 2022, and nearly $600 billion of green bonds were issued in 2021.

However, given that the agreement is provisional, there remain various aspects of the EUGBS that are unclear. To cite just one example, it is unclear whether securitizations will be part of the EUGBS as per the European Banking Authority's report on developing a framework for sustainable securitization. Further assessment will be required once the final text of the EUGBS is publicly available.

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