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COVER NOTE

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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
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Subject:	REGULATORY SCRUTINY BOARD OPINION Proposal for a Regulation of the European Parliament and of the Council on European green bonds

Delegations will find attached document SEC(2021) 390 final.

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EUROPEAN COMMISSION

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REGULATORY SCRUTINY BOARD OPINION

Proposal for a Regulation of the European Parliament and of the Council

on European green bonds

{COM(2021) 391}
{SWD(2021) 181}
{SWD(2021) 182}

EUROPEAN COMMISSION
Regulatory Scrutiny Board

Brussels,
RSB

Opinion

Title: Impact assessment / EU Standard for Green Bonds

Overall opinion: POSITIVE WITH RESERVATIONS

(A) Policy context

Green bonds can play an important role in financing assets needed for the green transition.

There are currently a number of widely used market standards for green bonds. Their application is commonly subject to external review. However, there is no harmonised legal definition and there is no supervision on the quality of external review. This can lead to a lack of transparency that might prevent the market from reaching its full potential.

As a result, it can be costly and difficult for investors to determine the positive environmental impact of bond-based investments and compare different green bonds. Issuers can lack certainty about which bonds are legitimately green, with possible reputational risks. In addition, this may lead to greenwashing, where investments may not reach the activities most useful to the green transition.

The current initiative aims to set a high quality European standard for green bonds (EU GBS), in order to increase trust and thus to trigger additional public and private finance for sustainable investments. It builds on the report of the Commission's Technical Expert Group on sustainable finance of June 2019.

(B) Summary of findings

The Board notes the useful additional information provided in advance of the meeting and commitments to make changes to the report.

However, the report still contains significant shortcomings. The Board gives a positive opinion with reservations because it expects the DG to rectify the following aspects:

(1) The problem definition does not sufficiently explain the deficiencies of the current market standards for green bonds. It is not sufficiently clear about the reasons for the lack of credibility of issuers and reviewers. It is not clear about the need for an EU initiative now, given ongoing market developments.

(2) The options are not sufficiently well defined. The report does not sufficiently explain the reasons for discarding the option on a mandatory standard for

This opinion concerns a draft impact assessment which may differ from the final version.

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sovereign green bonds and for not including an option on external review of market standards for green bonds.

(3) The report does not justify why its analysis of impacts is mainly qualitative. It does not specify how it proposes to measure the success of this initiative.

(C) What to improve

(1) The problem definition should better show why the current market standards for green bonds are deficient. It should explain why it is not expected that the current market standards would align on the Taxonomy Regulation within an acceptable timeframe. It should more explicitly discuss the moral hazard problem of the green bond market, linked to the lack of clarity on what investments are green. It should also justify why there is a need to regulate this area before significant problems arise. This is also relevant for the problem analysis on external reviews, where the report should better assess the risks of not regulating. Finally, the problem definition should better explain the particularities of sovereign green bond issuers, which justify a different treatment under the options.

(2) The baseline should incorporate an assessment of how market standards will evolve in the absence of a new EU initiative. Moreover, the report should not include an option that corresponds to the baseline on external reviews.

(3) The report should provide a consistent intervention logic for the need for additional supervision on external reviews, linking the problem description and the definition of the options. It should better explain the reasons for choosing a more proportionate approach to regulating this nascent segment and not considering an option to regulate the external review of existing market standards, in addition to the EU GBS.

(4) The report should clearly explain the legal reasons for discarding the option of a mandatory standard for sovereign issuers. It should clarify the purpose and consequences of allocation and impact reporting. The options should also provide details on the degree of grandfathering that is envisaged.

(5) The report should not only present the potential advantages of aligning the EU GBS with the Taxonomy regulation, but also discuss possible challenges, for example related to the inclusion of the greening of brown sectors.

(6) The report should explain why the assessment is mainly qualitative and why it was not possible to gather more quantitative data, and set out the efforts made in that respect.

(7) The report should determine how success will be measured for this initiative.

The Board notes the estimated costs and benefits of the preferred options in this initiative, as summarised in the attached quantification tables.

Some more technical comments have been sent directly to the author DG.

(D) Conclusion

The DG may proceed with the initiative.

The DG must revise the report in accordance with the Board's findings before

launching the interservice consultation. **If there are any changes in the choice or design of the preferred option in the final version of the report, the DG may need to further adjust the attached quantification tables to reflect this.**	
Full title	**EU Standard for Green Bond**
Reference number	PLAN/2020/7030
Submitted to RSB on	22 January 2021
Date of RSB meeting	17 February 2021

ANNEX: Quantification tables extracted from the draft impact assessment report

The following tables contain information on the costs and benefits of the initiative on which the Board has given its opinion, as presented above.

If the draft report has been revised in line with the Board's recommendations, the content of these tables may be different from those in the final version of the impact assessment report, as published by the Commission.

Summary of costs and benefits

I. Overview of Benefits (total for all provisions) – Preferred Option		
Description	***Amount***	***Comments***
Direct benefits		
Avoidance of duplicative external review costs	Estimated total saving of 1.75 - 3.5 million Euro per year[1] Depends strongly on number of issuances, rate of duplication and individual review costs incurred	Some issuers currently engage with multiple external reviewers for additional assurance. This will not be necessary under the new framework as trust in external reviews is increased.
Reduction of search costs and additional research costs incurred by green investors	No estimate available	Green investors will be able to clearly distinguish EU GBS from other green bonds. The basis in the taxonomy ensures a clear definition of green. Investors will require less time to and effort to ensure that respective bonds are in line with their investment objectives.
Reduced exposure to risks of green washing	No estimate available	The standard demands an increased amount of information over other market practices (given the basis in the taxonomy) and ensures more standardised and higher quality external review procedures. This reduces the risk of greenwashing and related price deterioration (if revealed)
Reduced issuance costs given common taxonomy	No estimate available	Many issuers will already incur the cost to their assets against the taxonomy given, for example, requirements in the NFRD. This assessment will reduce the cost of issuance of EU GBS as part of the 'green assessment' has already been carried out.
Indirect benefits		
Increased pricing advantage over other market practice for issuers	In a low single basis point range for investment grade bonds. This effect depends strongly on investor	Increased trust and assurances as to the greenness of the bond should help drive additional demand over other green bonds. This would imply pricing

[1] This is assumes a duplication rate of 10-20% and is based on an average external review costs of 40 000 Euro and 2020 issuance figures

	behaviour and the acceptance and trust in the taxonomy as well as the standard itself.	advantages and reduce the costs of financing for issuers
Increased high-quality green investments	No estimate available Depends on investor and issuer behaviour	Assuming that the benefits outstrip costs, at least in the longer run, the standard will help to increase investments in green projects and assets by lowering their financing costs. This will reduce the negative externalities of issuers with wider benefits for the environment and society.

(1) Estimates are relative to the baseline for the preferred option as a whole (i.e. the impact of individual actions/obligations of the preferred option are aggregated together); (2) Please indicate which stakeholder group is the main recipient of the benefit in the comment section;(3) For reductions in regulatory costs, please describe details as to how the saving arises (e.g. reductions in compliance costs, administrative costs, regulatory charges, enforcement costs, etc.; see section 6 of the attached guidance).

II. Overview of costs – Preferred option							
		Citizens/Consumers		Businesses		Administrations	
		One-off	Recurrent	One-off	Recurrent	One-off	Recurrent
Establishing a framework for external reviewers	Direct costs	No cost impact	No cost impact	Initial Application Fee: EUR 1,500 to EUR 5,000 Organisational costs (additional staffing, ICT, record keeping, documenting processes and procedures): EUR 10,000 to EUR 150,000	Ongoing Supervision: EUR 500 – EUR 2,000 per year. Organisational costs (additional staffing, ICT, record keeping, documenting processes and procedures): 1 to 1.5 FTE for compliance activity. Dependent on salary(EUR 50,000 – EUR 90,000).	Supervisory ICT Development: EUR 50,000 to EUR 150,000	<0.3 FTE per entity. Dependent on salary scale (between EUR 75,000 and EUR 95,000 per FTE per year). Ongoing Supervisory ICT maintenance: 1-2 FTE approximately for full database development and ongoing maintenance. Dependent on salary scale (between EUR 75,000 and EUR 95,000 per FTE per year).
	Indirect costs	No cost impact	No cost impact	Cost of advertising new regulatory status	No cost impact	No cost impact	Cost of dealing with potential market complaints Costs associated

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							with potential lawsuits

(1) Estimates to be provided with respect to the baseline; (2) costs are provided for each identifiable action/obligation of the *__preferred__* *option otherwise for all retained options when no preferred option is specified; (3) If relevant and available, please present information on costs according to the standard typology of costs (compliance costs, regulatory charges, hassle costs, administrative costs, enforcement costs, indirect costs; see section 6 of the attached guidance).*