



Strasbourg, 6.7.2021  
SWD(2021) 182 final

**COMMISSION STAFF WORKING DOCUMENT**  
**EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT**

*Accompanying the document*

**Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE  
COUNCIL**

**on European green bonds**

{COM(2021) 391 final} - {SEC(2021) 390 final} - {SWD(2021) 181 final}

<b>Executive Summary Sheet</b>
Impact assessment on a legislative proposal on European green bonds (EuGB)
<b>A. Need for action</b>
<b>Why? What is the problem being addressed?</b>
<p>(1) Despite the widespread use of market standards for green bonds, it can be costly and difficult for investors to determine the positive environmental impact of bond-based investments and compare different green bonds.</p> <p>(2) For issuers, the lack of common definitions of green economic activities creates uncertainty about what is considered to be legitimately green and they may face reputational risks from potential accusations of greenwashing in certain sectors.</p> <p>(3) For issuers, the fragmentation of market practices can create additional costs.</p> <p>These three problems are linked to (1) a lack of clear and harmonised definitions of green projects and green bonds, and (2) heterogeneity, a lack of transparency, and issues related to perceived or actual conflicts of interests in the external review market. These problems accentuate the risk of future market disruption from greenwashing and may lead to insufficient investment being channelled to projects with substantial climate and environmental impact, thereby impeding the achievement of the EU's environmental goals.</p>
<b>What is this initiative expected to achieve?</b>
<p>The objective is to better exploit the potential of the single market to contribute to meeting the EU's climate and environmental objectives, by facilitating further development of the market for high quality green bonds, while minimising disruption to existing green bond markets. This would be achieved by establishing a new voluntary standard for high quality green bonds that would (1) improve the ability of investors to identify and trust such bonds and (2) facilitate the issuance of such bonds by clarifying green definitions, harmonising external review practices, and reducing potential reputational risk for issuers.</p>
<b>What is the value added of action at the EU level?</b>
<p>The green bond market is inherently international, with participants trading and making use of external review services across borders. Action at EU-level avoids the risk of fragmenting the European market for green bonds and related external review services, while supporting a level playing field for actors in these markets. There are many interactions with other relevant EU-level legislation, such as the <a href="#">Taxonomy Regulation</a>.</p>
<b>B. Solutions</b>
<b>What legislative and non-legislative policy options have been considered? Is there a preferred choice or not?</b>
<p>The impact assessment considers a range of options across three policy dimensions, compared to the baseline:</p> <ol style="list-style-type: none"> <li>1) Scope of application of the standard for green bond issuers: (1) a voluntary approach whereby green bond issuers would be free to choose (or not) to align with the standard or (2) a mandatory approach whereby all green bonds issued in the EU or by an EU-based issuer would have to make use of the future standard.</li> <li>2) Regulatory treatment of external reviewers of EuGB-aligned green bonds: (1) tasking ESMA with authorising external reviewers of the EuGB, with limited supervisory oversight and requirements, and (2) similar to (1) but under a more stringent framework.</li> <li>3) Potential flexibility afforded to sovereign issuers who wish to make use of the EuGB, compared to non-sovereign issuers: (1) no flexibility, (2) flexibility with regards to bond-related requirements, or (3) Flexibility with regards to bond-related requirements and with regards to the EU Taxonomy Regulation.</li> </ol> <p>Based on the analysis of the various options, it is recommended that:</p> <ol style="list-style-type: none"> <li>1. the EuGB is established as a voluntary standard aligned with market best practice and the EU Taxonomy,</li> <li>2. ESMA is tasked with authorising external reviewers of the EuGB, with limited supervisory requirements, and</li> <li>3. sovereign issuers are afforded flexibility with regards to bond-related requirements, but not with regards to the EU Taxonomy Regulation.</li> </ol>
<b>Who supports which option?</b>
<p>The impact assessment is supported by feedback from two online consultations on this subject completed in 2020 (the targeted consultation on the EU Green Bond Standard (167 responses) and the public consultation on the Renewed Sustainable Finance Strategy (RSFS) (648 responses)):</p> <ul style="list-style-type: none"> <li>- A large majority of stakeholders supported the concept for a voluntary EU Green Bond Standard as proposed by the Technical Expert Group for Sustainable Finance.</li> <li>- A large majority of respondents expressed their support for a regulatory regime for external reviewers under ESMA's supervision, with many asking for a proportionate regime, which indicates that most stakeholders</li> </ul>

<p>would mostly favour the option of a lighter or more targeted supervisory regime.</p> <ul style="list-style-type: none"> <li>- Sovereign green bond issuers in the EU were evenly divided on the question of flexibility with regards to the Taxonomy, but strongly supported maintaining consistency between sovereign and corporate issuers.</li> </ul>
<b>C. Impacts of the preferred option</b>
<b>What are the benefits of the preferred option?</b>
<p>The preferred option builds on market best practices in the field of reporting and external review and on the alignment with the EU Taxonomy. This would position the EuGB as the foremost standard in terms of transparency and environmental credibility, in line with the objective of developing and supporting the market for higher quality green bonds. The proposed voluntary standard in conjunction with a light supervisory approach would ensure that the objectives are achieved in the most cost-efficient and effective manner.</p> <p>A voluntary standard would appeal to issuers of high quality green bonds, many of whom expressed support for the EuGB, as it would allow them to communicate more clearly to investors and others about their environmental credentials and commitments. At the same time, it would avoid disruptive impacts on existing green bond markets, which could continue to operate freely. A lighter, targeted supervisory approach to external reviewers would increase transparency for issuers and investors of external review procedures, improve harmonisation of certain aspects of the various approaches and address issues related to conflicts of interest, without discouraging existing providers from acting as reviewers for the EuGB.</p> <p>Overall, the standard would provide clear advantages in terms of trust, which may translate into cost-offsetting pricing advantages in the bond and provide a new incentive for issuers to use it. Likewise, issuers may want to demonstrate a stronger green commitment by using the standard. Investors would be provided with a green bond segment that ensures a high degree of market integrity, transparency and comparability. The initiative would provide increased choice to investors.</p>
<b>What are the costs of the preferred option?</b>
<p>The initiative would require limited investments both by ESMA as well as external reviewers that decide to opt-in. ESMA may incur one-off costs and minimal ongoing costs in the form of additional labour resources, training, as well as IT setup costs. External reviewers may incur additional costs if they want to comply with the standard. Supervisory fees should be kept to a minimum for the time being given the limited market size. Reviewers would have to incur some direct compliance and legal advisory costs as well as organisational costs in order to be authorised by ESMA. The standard would be fully voluntary for issuers. Potential costs of using the standard arise mainly due to costs that may be passed on from external reviewers as well as costs relating to the application of the taxonomy. However, costs related to the application of the taxonomy would be incurred already under other initiatives (e.g. the <a href="#">Corporate Sustainability Reporting Directive</a>), and therefore partly offset.</p>
<b>How will businesses, SMEs and micro-enterprises be affected?</b>
<p>The use of the standard would be voluntary for SME issuers. The EuGB furthermore aims to limit cost increases over other market standards, including for potential SME issuers. Depending on issuance size and frequency, these costs may still be larger in relative size for SME issuers compared to larger issuers. The framework aims to attract also smaller external reviewers by limiting the extent of regulatory requirements and required organisational changes. Larger reviewers may however enjoy cost advantages over smaller market players, largely due to their (already) regulated status under other regulatory frameworks. Ultimately, the implied cost increases are small and should not impede on smaller reviewers' competitive position.</p>
<b>Will there be significant impacts on national budgets and administrations?</b>
<p>The legislation would apply directly and require limited implementation by national administrations. The preferred option for a supervisory regime administered by ESMA would also have minimal impact on national budgets.</p>
<b>Will there be other significant impacts?</b>
<p>The initiative facilitates the identification of high-quality green bonds in the market. The increase in transparency should improve market efficiency and drive more investments into higher-quality green projects and assets, especially in conjunction with new disclosure requirements stemming from other parts of the wider sustainable finance action-plan. These factors should help the European economy to transition to carbon neutral and overall lower polluting technologies and production processes more quickly.</p>
<b>D. Follow up</b>
<b>When will the policy be reviewed?</b>
<p>It is recommended to review the policy after an adequate period of time after its entry into application.</p>