TEG Consultation on a EU Green Bond Standard

Eurelectric response

April 2019

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:
- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

Dépôt légal: D/2019/12.105/11

WG Social Sustainability
WG Financial Regulation

Contact:
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BANKING AND FINANCE

Invitation for feedback on the TEG preliminary recommendations for an EU Green Bond Standard

Fields marked with * are mandatory.

Introduction

Disclaimer

This call for feedback is part of Directorate-General for Financial Stability, Financial Services and Capital Markets Union, Directorate-General for Environment, Directorate-General for Climate action and Directorate-General for Energy ongoing work on sustainable finance, for which the European Commission has set up a dedicated Technical Expert Group (TEG).

In its action plan: financing sustainable growth, action 2 on "creating standards and labels for green financial products", the European Commission has requested the TEG to prepare a report on an European Union (EU) Green Bond Standard, building on current best practices.

This feedback process is not an official Commission document nor an official Commission position. Nothing in this feedback process commits the Commission nor does it preclude any potential policy outcomes.

In 2018 the European Commission (EC) published its action plan on financing sustainable growth (action plan). In Action 2 of the action plan, the EC commits to create standards and labels for green financial products. A technical expert group on sustainable finance (TEG) has been set up by the EC to assist in four key areas of the action plan, one key area is the development of an European Union (EU) Green Bond Standard.

The TEG has drafted an interim report, outlining the status of the work conducted so far (as of Februaryj2019). This report proposes the content of an EU Green Bond Standard (EU GBS), explains its purpose, sets its ambition level, and explains how we think the creation of this EU GBS will address the barriers to the green bond market's further development and will support its role in channeling substantial financial flows to green projects. In addition, the interim report elaborates on possible incentives, based on the EU GBS, to enhance the growth of green bond issuance and the links with other sustainable financing instruments in a wider context.

The final report will provide guidance to the EC on our proposed way forward for the EU GBS, including on possible legislative initiatives or amendments. It should also feed into the work being launched in parallel by the EC on a potential EU Ecolabel for green financial products.

Financial market participants are invited to give their feedback on the key elements of this interim report.

The deadline for providing feedback is 3 April 2019 cob

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact ec-teg-sf@ec.europa.eu.

Useful documents and links:

- Full and downloadable version of the interim report
- Draft Green Bond Standard
- More information on this invitation for feedback
- Specific privacy statement

1. Information about you

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*Are you replying as a(n):
- institutional investor
- public sector issuer/ borrower (sovereigns, regions, municipalities, government backed entities)
- multilateral or bilateral financial institution, government backed agency or development bank
- corporate issuer/borrower
- financial institution acting as issuer/borrower
- financial institution acting as intermediary
- financial institution acting as lender
- NGO
- sustainability consultancy
- credit rating agency

- auditing/assurance firm
- academic
- stock exchange
- index provider
- (selected) other

* Please specify the type of organisation:

Sector Association

* Name of your organisation:

Eurelectric

* Contact email address:

The information you provide here is for administrative purposes only and will not be published

rhaas@eurelectric.org

* Is your organisation included in the Transparency Register?
(If your organisation is not registered, we invite you to register here, although it is not compulsory to be registered to reply to this consultation. Why a transparency register?)

- (selected) Yes
- No

* If so, please indicate your Register ID number:

4271427696-87

* Your organisation has been active in the green bond market as:

at least 1 choice(s)

- [ ] investor
- [ ] issuer
- [ ] underwriter
- [ ] external verifier
- [ ] index provider
- [ ] stock exchange
- [x] not active so far
- [ ] considering to be active in the next 12 months
- [ ] other

* Where are you based?

Belgium

* Where do you carry out your activity?

Belgium

Important notice on the publication of responses

*Contributions received are intended for publication on the Commission's website. Do you agree to your contribution being published?
(see specific privacy statement)

- (selected) Yes, I agree to my response being published under the name I indicate (*name of your organisation /company/public authority or your name if your reply as an individual*)
- No, I do not want my response to be published

2. Your opinion

1.1 The TEG identifies five key barriers to the development of the green bond market (see Section 2.2 of the report of the Technical Expert Group subgroup on Green Bond Standard (the report)).

On a scale from 1 to 5, please express your view as to the importance of each of these barriers (1 indicating the lowest importance):

	1 (least important)	2	3	4	5 (most important)	Don't know / no opinion / not relevant
a) Absence of clear economic benefits associated with issuance of green bonds					X	
b) Issuers' concerns with reputational risks and green definitions			X			

c) Complex and potentially costly external review procedures	○	○	○	◉	○	○
d) Uncertainty with regards the type of assets and expenditures that can be financed by green bonds	○	○	○	◉	○	○
e) Lack of clarity with regards to the practice for the tracking of proceeds	○	◉	○	○	○	○

1.2 Have you identified other barriers to the development of the green bond market, in addition the ones listed above? Please comment as appropriate:

2000 character(s) maximum

Green Bond Standard can be used to mobilise resources for climate change adaptation, renewable energy and other environmentally friendly projects. That is why, Eurelectric is convinced that Green Bonds have an important role to play in the mobilisation of financial resources in order to decarbonise the electricity sector and for climate change adaptation.

As a first general remark, Eurelectric would like to emphasized the need of coherence with the two existing standards (i.e the Green Bond Principles and the Climate Bond Standard) as well as the existing EU policies.

Regarding potential barriers, we would like to mention that some verifiers are very much concentrated in impact reporting, namely in the decrease of CO2 emissions, which narrows the scope of projects financed from proceeds of green bonds. Therefore, a clear and common understanding of projects types which are eligible for financing from proceeds of green bonds is important.

2 With the objective to support the scaling up of the EU green bond market while at the same time safeguarding the integrity of this market, the TEG puts forward eleven preliminary policy recommendations for consideration by the European Commission.

Recommendations 1-4: Please express your agreement with the proposed recommendations by ticking the yes/no box:

	Yes	No	Don't know / no opinion / not relevant
Recommendation 1: Create a voluntary EU Green Bond Standard	◉	○	○
Recommendation 2: Monitor impact and consider further supporting action including possible legislation after an estimated period of 3 years	◉	○	○
Recommendation 3: Develop a legislative proposal for a centralised accreditation regime for external green bond verifiers to be potentially operated by ESMA	○	○	◉
Recommendation 4: Set up a market-based voluntary Accreditation Committee for external verifiers of green bonds for a transition period	◉	○	○

Please add any comments to your replies on recommendations 1 to 4, as appropriate:

2000 character(s) maximum

The European Green Bond market is diverse. The EU GBS should therefore be aligned with the principles contained in Green Bonds Principle (GBP) and Climate Bonds Standards (CBS) international standards. The European Regulation should also go beyond that in order to build key European voluntary principles and put in place monitoring mechanisms to ensure that green bonds are used in accordance with the objectives pursued.

Moreover, the market-based approved verifier system ensure verifiers have the required levels of skills. An accreditation process operated by ESMA could lead to additional verification costs.A regime operated by ESMA could be envisioned only if the market-based scheme proposed on recommendation 4 is not effective after a 3 years period.

Recommendations 5-11: Please express your agreement with the proposed recommendations by using the scale from 1 to 5 (1 indicating no agreement):

	1 (strongly disagree)	2	3	4	5 (strongly agree)	Don't know / no opinion / not relevant
Recommendation 5: Encourage investors (in particular institutional investors) to adopt the requirements of the EU-GBS and actively communicate their commitment	○	○	○	●	○	○
Recommendation 6: Adopt an ambitious disclosure regime for institutional investors	○	○	○	●	○	○
Recommendation 7: Consider promoting greening the financial system by expressing and implementing a preference for EU green bonds	○	○	○	●	○	○
Recommendation 8: Develop credit enhancement guarantees for sub-investment grade green bonds	○	○	○	○	○	●
Recommendation 9: Encourage all types of European issuers to issuing their future green bonds in compliance with the requirements of the EU GBS	○	○	○	○	●	○
Recommendation 10: Set up a grant scheme to off-set the additional cost of external verification for issuers	○	○	○	○	●	○

Recommendation 11: Promote adoption of the EU Green Bond Standard through the EU eco-label for financial products	○	○	●	○	○	○

Please add any comments to your replies on recommendations 5 to 11, as appropriate::

2000 character(s) maximum

On the Recommendation N° 11, we consider that is not the most relevant at this stage because we do not know at all what this label will be.

3.1 The TEG proposes that the proceeds from EU green bonds be allocated to green projects (Section 4.1 of Annex 1 draft model of the EU Green Bond Standard to the report).

Do you agree that green projects may include the following items?

	Yes	No	Don't know / no opinion / not relevant
a) eligible green assets including physical assets and financial assets such as loans;	●	○	○

b) the share of the working capital that can reasonably be attributed to the operation of such eligible, tangible or intangible, green assets;	◉	○	○
c) eligible green operating expenditures related to improving or maintaining the value of eligible assets;	○	○	◉

3.2 Please add any comments to your replies to question 3.1, as appropriate:

2000 character(s) maximum

Europe needs a clear framework for long-term and cost-effective investments in innovative transition-enabling and carbon-neutral technologies. Investment in the required networks will contribute to connect them and ensure the security of supply, which all involve a high level of capital intensity.

A uniform green bond eligibility and selection criteria would help issuers to determine what type of projects or portfolio could be financed using the proceeds of green bonds and the associated expected environmental benefits. The easiest way to set up a system of green bond classification is to adopt the categorisation under the GBP and the CBS, which already contain a list of qualified project types. However, there is a lack of global consensus on which projects are green enough to be labeled as such. One way to address this problem is through a comprehensive approach to green bond classification. The classification should avoid an all-or-nothing approach, allowing certain industries to move at a different pace towards greener solutions. After all, each industry and each country has a different need, thus a universal standard rule may not be plausible for every actor. This is advantageous because projects in accordance with the stage of development of the country would still promote transitioning to a more sustainable society.

Generally, the definition of Green Projects would need to be better aligned with categories of expenditures that are commonly used by corporates for accounting and financial control purposes.

4.1 The TEG proposes (Section 4.1 of Annex 1 draft model of the EU Green Bond Standard to the report) that eligible green expenditures qualify for refinancing with a maximum three years look-back period before the issuance year of the EU green bond, while eligible green asset qualify with no maximum look-back period.

Do you agree that a maximum look-back period be imposed with regard to the refinancing of eligible green expenditures?

	Yes	No	Don't know / no opinion / not relevant
a) Do you agree that a maximum look-back period be imposed with regard to the refinancing of eligible green expenditures?	◉	○	○
b) Do you agree that a no maximum look-back period be imposed with regard to the refinancing of eligible green assets?	○	○	◉

5.1 The TEG proposes ([Section 3.3.1 of the report]) that in cases where:

- i. **the Taxonomy is not yet in force;**
- ii. **the technical criteria are not yet available;**
- iii. **or when technical criteria are considered not directly applicable due to the innovative nature, complexity, and/or the location of the green projects,**

the issuer be allowed to rely on the fundamentals of the Taxonomy to verify the alignment of their green projects with the Taxonomy.

Do you agree with this approach?

◉ Yes
○ No
○ Don't know / no opinion / not relevant

5.2 Please add any comments to your reply to question 5.1, as appropriate:

2000 character(s) maximum

Issuers could also rely on any relevant reference (not only EU taxonomy) in order to verify the alignment of "envirommentally sustainable project" with Paris Agreement if not potentially in conflict with the EU taxonomy.

6.1 The TEG proposes ([Section 4.1 of Annex 1 draft model of the EU Green Bond Standard to the report]) that the issuer produces a green bond Framework (GBF) which confirms the voluntary alignment of green bonds with the EU Green Bond Standard and provides details on key aspects of the use of proceeds and the issuer's green bond strategy and processes.

Do you agree with the envisaged content and role of the GBF?

- (●) Yes
- ( ) No
- ( ) Don't know / no opinion / not relevant

6.2 Please add any comments to your reply to question 6.1, as appropriate:

2000 character(s) maximum

7.1 The TEG proposes ([Section 4.3 of Annex 1: draft model of the EU Green Bond Standard to the report]) that the EU green bond issuer reports at least annually, until full allocation of the bond proceeds to green projects and thereafter, in case of any material change in allocation.

Please express your agreement with the proposed recommendations by using the scale from 1 to 5 (1 indicating no agreement):

	1 (strongly disagree)	2	3	4	5 (strongly agree)	Don't know / no opinion / not relevant
a) Statement of compliance with the EU Green Bond Standard	○	○	○	○	●	○
b) Amount allocated to each green projects or green project categories; with the classification of such projects according to the EU Taxonomy and/or to EU environmental objectives	○	○	○	○	●	○
c) Nature of green projects (assets, capital expenditures, operating expenditures, etc.)	○	○	○	●	○	○
d) Share between green project financing and refinancing	○	○	○	●	○	○
e) Share of green projects financed by the issuer (if applicable)	○	○	●	○	○	○
f) Actual or estimated impact of the green projects based on metrics outlined in the GBF	○	○	○	●	○	○
g) Regional distribution of green projects	○	○	●	○	○	○
h) Green bond ratio	○	○	●	○	○	○

7.2 Please add any comments to your replies to question 7.1, as appropriate:

2000 character(s) maximum

Green financing ratio could be considered instead of Green bond ratio (item h), which would also include green loans.

8.1 The TEG proposes (Section 4.4 of Annex 1: draft model of the EU green bond standard to the report) that the issuer appoints External Reviewers to verify both:

i. before or at issuance, the issuer's GBF, AND;

ii. after allocation of proceeds,

the EU green bond allocations and the actual or estimated impact reporting provided by the issuer.

Do you agree with this approach to verification as proposed by the TEG?

- (selected) Yes
- No
- Don't know / no opinion / not relevant

8.2 Please add any comments to your reply to question 8, as appropriate:

2000 character(s) maximum

Verification by independent third parties should be mandatory, so that the legitimacy of the green bonds can be evaluated before they are labeled green. The verification process should be adjusted to the project in question letting obvious green projects benefit from less scrutiny than projects where the green impact needs more justification.

The GBP and CBS guidance both have third party verification as a step for companies and institutional banks, making it almost impossible to monitor and verify on an ongoing basis. Having a mandatory verification step will allow more transparency in how bonds are used, and give investors more assurance as to the legitimacy of their bonds.

The success of that measure depends on the relevant assurance mechanism obliging issuers to undertake:
-Pre-issuance review to ensure that green bonds are aligned with the required project eligibility and selection criteria. The assurance mechanism is the review that should be undertaken by an independent external party.
-Post-issuance external review to ensure that the green bonds proceeds are allocated in accordance with the project eligibility and selection criteria stated prior to issuance. The assurance mechanism is similar to the pre-issuance review, that is, the review should be undertaken by an independent external party.

For comparability of reviews done by different external parties, a single review standard should be introduced.

9. The TEG puts forward (Section 5 of the report) for consideration by the European Commission, a series of proposals for incentives to support the EU green bond market.

Do you have any comment on the incentives stated in the Section 5.1?

2000 character(s) maximum

Regarding the concerns around the risk-return profile of green bonds, Eurelectric agrees that this could be addressed through public measures, either by increasing returns through public incentives or by measures reducing the risks associated with a bond. The power sector will support incentives or supporting factors that will help to reduce the financing costs and/or increase the volumes of capital flowing to green projects.

10.1 Some of these proposals stated in 5.2 pose challenges to their implementation – requiring the engagement of several authorities, the acquisition of new competencies and involving prolonged timelines. These proposals will require further analysis by the TEG as well as outreach and feedback from a broad range of stakeholders.

Please express your view on the potential effectiveness of such proposals using the scale from 1 to 5, with 1 indicating no effectiveness:

	1 (not effective at all)	2	3	4	5 (very effective)	Don't know / no opinion / not relevant
a) Tax incentives at issuer or investor level (including accelerated depreciation for assets financed by green bonds and loans)	○	○	○	○	●	○
b) Favoring EU green bonds in relevant financial sector regulation and prudential rules	○	○	○	○	○	●

10.2 Have you considered any other proposals for incentives in addition to the ones outlined by the TEG in Section 5 of the report?

Please comment as appropriate:

2000 character(s) maximum

11.1 The objective of the EU GBS is to support the scaling up of the green bond market in the EU, while at the same time safeguarding the integrity of this market.

Through which of the means is the EU GBS likely / unlikely achieve to this objective?

Please express your view using the scale from 1 to 5, with 1 indicating unlikely.

	1 (very unlikely)	2	3	4	5 (very likely)	Don't know / no opinion / not relevant
a) Alignment of eligible green projects with the EU Taxonomy – expected to reduce uncertainty over greenness and provide clear guidance	○	○	○	○	●	○
b) Clarification with regards to some key elements involved in green bond issuance: tracking of proceeds, nature of eligible assets / expenditures – expected to reduce uncertainty and provide clear guidance	○	○	○	○	●	○
c) Requirement for the publication of issuer's GBF and for allocation- and impact reporting – expected to increase transparency and promote standardisation in provision of information	○	○	○	●	○	○
d) Mandatory external review (and accreditation of reviewers – expected to support reliability of information, market integrity, and promote standardisation in provision of information	○	○	○	○	●	○

11.2 Please add any comments to your replies to question 11, as appropriate:

2000 character(s) maximum

12. Are there any other relevant issues that you would like to bring to the attention of the TEG:

Please comment as appropriate:

2000 character(s) maximum

3. Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) here:

53fe3f08-5c78-444a-b483-f6088136a440/Eurelectric_Position_paper_on_Sustainable_Finance.pdf

Useful links

TEG interim report on EU Green Bond Standard (https://ec.europa.eu/info/files/190306-sustainable-finance-teg-interim-report-green-bond-standard_en)

Draft Green Bond Standard (https://ec.europa.eu/info/files/190306-sustainable-finance-teg-interim-report-green-bond-standard_en)

Feedback invitation details (https://ec.europa.eu/info/publications/190306-sustainable-finance-interim-teg-report-green-bond-standard_en)

Specific privacy statement (https://ec.europa.eu/info/files/190306-sustainable-finance-teg-interim-report-green-bo standard-privacy-statement_en)

More on the Transparency register (http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

Contact

ec-teg-sf@ec.europa.eu

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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