Key messages on EU green bond standard proposal

The insurance industry welcomes the European Commission's proposal for an EU green bond standard (EUGBS) as a framework to facilitate capital flows to green investments and transition projects, in line with the objectives of the European Green Deal. As Europe's largest institutional investor, the industry supports measures to stimulate the development of the green bond market.

Specifically, Insurance Europe welcomes the fact that, as proposed by the EC, the EUGBS:

- **Can help enhance the availability of attractive sustainable assets** — The framework will allow investors to invest with confidence in EU green bonds, on the basis of reliable, comparable and standardised information.
- **Facilitates sovereign issuance of green bonds** — This is important for funding the EU's transition to a zero-carbon economy.
- **Is based on market standards** — This makes the EUGBS a potential global standard for green bonds. This would help to create a level global playing field for European investors.
- **Is voluntary** — It therefore does not prevent the use of other sustainability bond standards. This avoids potential negative effects on the fast-growing and international green bond market.

There are, however, some improvements that can be made to ensure the uptake of the EUGBS:

- **Grandfathering** — Under the current proposal, the designation as an EU green bond is not maintained for the entire term of the bond up to maturity, which may result in lower attractiveness for investors and issuers. The regulation should therefore make clear that outstanding EU green bonds, regardless of subsequent changes to the screening criteria of the EU taxonomy, remain EU green bonds.
- **Use of proceeds for transition** — For EU green bonds to support more new green projects and help achieve the objectives of the European Green Deal, it is vital that the financing of transitional projects is allowed. For this to happen, the EU taxonomy must fully embed transitional measures.
- **"Flexibility pocket"** — The insurance industry welcomes proposals to introduce a degree of flexibility in the allocation of EU green bonds proceeds in taxonomy-aligned economic activities, given that companies make a reference to their transition plans as required by the Corporate Sustainability Reporting Directive and that general "do no significant harm" criteria are applied to scan the non-taxonomy aligned proceeds.
- **Taxonomy alignment** — The taxonomy is based on criteria at activity level, while bond financing is usually at project level. Issuers will need some discretion over how to align projects under an EUGBS with the activity-based screening criteria (ie, how to apply the taxonomy at project level).
- **Accreditation** — Monopolistic market structures increase issuance costs and could act as barriers to issuing green bonds. The accreditation criteria and supervision for EU green bond reviewers should therefore not result in situations in which ESG agencies hold market- and price-setting powers, such as in the credit rating agency market.

Insurance Europe is the European insurance and reinsurance federation. Through its 37 member bodies — the national insurance associations — it represents insurance and reinsurance undertakings that account for around 95% of total European premium income.