Position Paper

Comments to EC Technical Expert Group preliminary recommendations for an EU Green Bond Standard

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Questions on the TEG preliminary recommendations for an EU Green Bond Standard

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						
b) Issuers' concerns with reputational risks and green definitions						
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						

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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:

The insurance sector highlights that other barriers hinder the objective to increase the financial flows to sustainable projects and impact the development of the green bond market. They include:

- a **limited supply of green projects to be financed by green bonds,** which is in fact unable to meet the growing demand of investors to invest in attractive green assets
- **the additional costs, expertise and internal resources** to analyse the issuer's dedicated information and reporting, including the use of proceeds
- the **risks related to greenwashing**, especially in the absence of a sustainability taxonomy
- **inconsistent and/or incomparable ESG data,** which hinder the implementation of ESG strategies by institutional investors, especially for large and diversified investment portfolios
- the **lack of harmonisation in standards, definitions and market practices** which negatively impacts the comparability of green bonds. In this respect, the framework of "Green Bond Principles" is a good starting point for further development.

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:

The insurance industry is supportive of the creation of a voluntary EU Green Bond Standard (GBS) and of the adoption of recommendation 1 by the European Commission (EC). A voluntary framework will support the implementation of the EU Green Bonds while enhancing comparability and consistency among issuers of green bonds.

Regarding recommendation 2, the insurance sector supports an EC review of the impact of the EU GBS after three years from its launch and potential recourse to legislation. In this respect, the insurance sector encourages the TEG to further elaborate this recommendation in its final report to clarify what legislation would be involved.

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With respect to recommendations 3 and 4, the sector welcomes the investigation of a legislative proposal to introduce a centralised accreditation regime for external green bond verifiers. In this respect, it is key to note that the introduction of a voluntary accreditation committee as indicated in recommendation 4 risks complicating the take-up of the EU GBS by making the issuance process more complex, especially given that its use is envisaged only for such a limited period of time.

Independently from the verification system to be set in place, the insurance sector believes that the criteria for the accreditation of EU GBS verifiers should prevent the creation of monopolistic market structures. It is key to avoid situations where ESG agencies hold market and price setting powers, as in some cases in the credit rating agency market.

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:

The disclosure regime in recommendations 5 and 6 appears premature and should be further investigated. Given that the green bond market is at an early stage of development, institutional investors should have flexibility with respect to the way and level of granularity in which they report mandatory requirements of EU-GBS-compliant green bond holdings. Such disclosures of the Green Bond ratio or the alignment of green fixed-income strategies with the EU GBS should be evaluated at a later stage (please see answer to question 9 for more detail).

As the largest European institutional investor, the industry supports credit enhancement guarantees and anchor investment as described in recommendation 8. Incentives to improve the pipelines of green projects and their attractiveness should result in the additionality of projects and should not crowd out private investors. Public financing should be directed to economically viable projects that would not otherwise receive private finance.

Regarding recommendation 7, the insurance sector is concerned about potential crowding-out risks due to European Central Bank purchases of EU Green Bonds. The issues in the green bond market primarily lie on the supply side, rather than on the demand side. Therefore, European Central Bank purchases will not help increase the scale of the green bond market. On the contrary, the ECB purchases might increase competition with institutional investors.

With respect to external verification costs, the sector is cautious about a grant scheme as in recommendation 10. The sector believes that these measures should not lead to increased costs for these mainstream bonds. While this measure will ensure that green bonds remain competitive in comparison to "non-green mainstream bonds", it might be more efficient for the EU or member states to direct grant schemes or other financial incentives directly at the real economy, rather than at the financial instrument.

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:

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*
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:

While acknowledging the importance for financial market participants to have rapidly in place a European framework for green bonds, the insurance sector stresses the need for an appropriate sequencing and timing of the relevant sustainability-related initiatives, notably the taxonomy. Therefore, the European insurers support the creation of a European GBS based on the European sustainability taxonomy. Alignment of the EU GBS with the EU taxonomy will allow to develop a more credible and coherent green bond market.

This considered, the insurance sector highlights the risks connected to having an EU GBS in place without a finalised Taxonomy. Relying on the interpretation of issuers and external reviews brings about unnecessary uncertainty and potential risks, not only at the issuer level with respect to the issuance process, eg due to changes in what is considered sustainable and what is not, but also due to the proposed requirements for mandatory disclosures. In addition, this could lead to important discrepancies among green bonds issued under a full taxonomy and bonds issues before or during the transition period.

Since sustainability has different meanings to investors across markets, reaching a common understanding of what is sustainable should remain the key priority of policymakers. While this will not prevent the insurance sector to commit to the sustainability agenda, this will strongly encourage insurers to invest with confidence in green assets, eg by significantly mitigating reputational risk, and further contribute to the sustainability transition.

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:

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:

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?

☐ ***Yes***

☐ ***No***

☐ *Don't know / no opinion / not relevant*

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

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?

As already mentioned, the disclosure regime in recommendations 5 and 6 appears premature and should be further investigated. Given that the green bond market is at an early stage of development, institutional investors should have flexibility with respect to the way and level of granularity in which they report mandatory requirements of EU-GBS-compliant green bond holdings.

For example, while the Green Bond ratio provides useful information for and about investors, it only delivers a partial view as it only considers green bonds and it ignores other green debt such as green loans/products. Therefore, it might be more valuable to disclose:

- a pure "green bond ratio" (eg computed total green bonds divided by total outstanding bonds, instead of total debt)
- a "green debt ratio" (eg total green financing - bonds, loans and deposits- divided by total outstanding debt)

Disclosures of the Green Bond ratio or the alignment of green fixed-income strategies with the EU GBS should be further evaluated, notably once:

- the green bond market is deeper and more liquid
- the taxonomy is available, and its central elements have been developed

Regarding recommendation 8, the industry supports incentives to improve the pipelines of green projects and their attractiveness result. It is key that these measures result in the additionality of projects and do not crowd out private investors.

With respect to recommendation 7 and 10, the insurance sector believes that further investigation is needed to assess the suggested measures.

Please also refer to the answer to question 5.2.

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:

European insurers welcome further analysis of incentives schemes for EU Green Bonds, as long as they do not lead to a risk of investment bubbles in green assets, nor do they distort risk-based principles embedded in parallel frameworks (eg prudential regimes).

For example, in the area of prudential rules, the industry believes that the insurers' prudential framework needs to remain risk-based and should not be used to provide artificial incentives to green investments. Therefore, it is essential that Solvency II measures the risks that insurers are exposed to when investing. Only if there is proof that green bonds can have a different risk profile in comparison with equivalent "standard bonds", these differences should be reflected in the prudential framework, ie in Solvency II. On the other hand, further work would be appreciated to identify and remove obstacles to sustainable investments, eg by appropriately designing and calibrating regulation aimed at recognising the actual risks insurers face in their portfolios.

In addition, caution is needed to assess the efficiency and effectiveness of tax incentives schemes for EU Green Bonds. Specifically, it should be assessed whether it is more cost-effective to address such schemes directly to real economy (e.g. subsidies to green buildings, renewable energy, etc.), rather than to financial debt instruments.

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:

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

Please comment as appropriate:

Insurance Europe supports the creation of a credible EU GBS. In this respect, the sector highlights:

- **Alignment of the EU GBS with the EU taxonomy**. This will mitigate reputational and greenwashing risks.
- **Consistency with EU Ecolabelling and extension to a "EU Green Financing Standard"**. Other markets for green financing are rapidly developing. They should be recognised under a European standard, so that green bonds, loans and other financing instruments are treated coherently, in line with the EU Ecolabelling.
- **Comprehensive evaluation of sanctioning mechanisms for non-compliant corporates**. It is key to evaluate potential sanctioning mechanisms for corporate businesses not complying with the EU GBS, after issuing an EU Green Bond. This would create disincentives to use green funding for non-green purposes and ensure minimum verification of proceeds allocation, in line with the tracking of "equal amounts". However, they would bring about unnecessary bureaucracy and increased risks for issuers.
- **Global Green Bond Standard.** As capital markets and insurers' investments are global, the industry encourages international cooperation to create a global green bond standard valid for non-European bonds. This would support a level playing field for European investors.
- **Assessment of green bond requalification.** Requalification of existing bonds in EU Green Bonds should be further examined to avoid uncertainty. If a bond is not requalified, the investors will not know if this is due to lack of alignment with the EU GBS or to other reasons. This could result in unintended price effects for both issuers and investors.
- **More clarity and examples**. The elements of the GBF and of the reporting should be further elaborated. The TEG could provide examples of best practice and case studies, eg on how to:
  - apply the taxonomy criteria to a green bond and to fixed-income strategies
  - align existing bonds with the EU GBS
  - proceed when the technical criteria of the taxonomy have not been developed yet