Position Paper

Response to EC consultation on the establishment of an EU Green Bond Standard

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General comments

- **The industry welcomes an EU Green Bond Standard.**
- **The industry agrees with the proposed components of the EU Green Bond Standard** (EU GBS) **and welcomes the fact that it is built on market best practices.** When establishing an EU GBS, all its core components should remain standardised at EU level to safeguard transparency, uniformity and comparability.
- **Investors need to be able to invest in EU green bonds with confidence**. The EU GBS should facilitate investors' trust in the green bond market by ensuring that:
  - covered projects are aligned with the EU Taxonomy through to the maturity; and,
  - investors are provided with sufficient transparency and access to reliable/usable information.
- As Europe's largest institutional investor, the insurance industry supports measures to stimulate the **development of the green bond market as a means of financing the sustainability transition**. The proposed incentives are therefore welcome. However, the industry does not support arbitrary, non-risk-based, supporting or penalising factors in the prudential framework to support the uptake of green bonds. From an insurance perspective, adequate policy actions would be needed to correct existing flaws in Solvency II to ensure that the right incentives are in place.
- The EU GBS has the potential to become a **global standard for green bonds**, putting the EU in a leadership position on sustainability and creating a level playing field for European investors. As capital markets and insurers' investments are global, the industry encourages the EC to collaborate internationally with other jurisdictions to also create a green bond standard for non-European bonds.
- **EU member states should lead by example**, making use of the standard in their issuance of government bonds to support the EU's transition to a zero-carbon economy and to implicitly enhance the availability of sustainable assets.

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I. Questions on the EU Green Bond Standard

I.1. Questions on the potential need for an official / formalised EU GBS

Question 1: In your view, which of the problems mentioned below is ***negatively affecting the EU green bond market*** *today? How important are they?*

	1 (no impact at all)	*2 (almost no impact)*	*3 (some impact)*	*4 (strong impact)*	*5 (very strong impact)*	*Don't know/No opinion/ N/A*
Absence of economic benefits associated with the issuance of green bonds		**X**				
Lack of available green projects and assets					**X**	
Uncertainty regarding green definitions				**X**		
Complexity of external review procedures			**X**			
Cost of the external review procedure(s)			**X**			
Costly and burdensome reporting processes			**X**			
Uncertainty with regards to the eligibility of certain types of assets (physical and financial) and expenditure (capital and operating expenditure)				**X**		
Lack of clarity concerning the practice for the tracking of proceeds					**X**	
Lack of transparency and comparability in the market for green bonds					**X**	
Doubts about the green quality of green bonds and risk of green washing					**X**	
Other						

Question 2: To what extent do you agree that an EU GBS as proposed by the TEG would address the problems and barriers mentioned above in question 1?

	1 (very negative impact)	*2 (rather negative impact)*	*3 (no impact)*	*4 (rather positive impact)*	*5 (very positive impact)*	*Don't know/No opinion/ N/A*
Absence of economic benefits associated with the issuance of green bonds			**X**			
Lack of available green projects and assets				**X**		
Uncertainty regarding green definitions					**x**	
Complexity of external review procedures				**X**		
Cost of the external review procedure(s)		**X**				

Costly and burdensome reporting processes		X				
Uncertainty with regards to the eligibility of certain types of assets (physical and financial) and expenditure (capital and operating expenditure)					X	
Lack of clarity concerning the practice for the tracking of proceeds					X	
Lack of transparency and comparability in the market for green bonds					X	
Doubts about the green quality of green bonds and risk of green washing					X	
Other						

I.2. Questions on the proposed content of the standard

Question 3: To what extent do you agree with the proposed core components of the EU GBS as recommended by the TEG? Please specify the reasons for your answer.

	1 (strongly disagree)	*2 (rather disagree)*	*3 (neutral)*	*4 (rather agree)*	*5 (strongly agree)*	*Don't know/No opinion/ N/A*
Alignment of eligible green projects with the EU Taxonomy					X	
Requirement to publish a Green Bond Framework before issuance					X	
Requirement to publish an annual allocation report					X	
Requirement to publish an environmental impact report at least once before final allocation					X	
Requirement to have the (final) allocation report and the Green Bond framework verified					X	

Insurance Europe generally supports the proposed core components of the EU GBS, which builds on market best practices such as the Green Bond Principles. When establishing an EU GBS, it is key that all its core components remain standardised at EU level to safeguard transparency, uniformity and comparability.

Insurance Europe strongly welcomes the **alignment of eligible green projects with the EU Taxonomy**. This will mitigate reputational and greenwashing risks for investors as well as for issuers, permitting the development of a more credible and coherent green bond market.

That said, the alignment of projects with the EU Taxonomy should only be assessed based on factors that are observable at the time of issuance and should not be denied due to factors that only arise after the issuance, such as subsequent changes to the technical screening criteria. Otherwise uncertainty regarding the green status of a given bond will undermine investors' confidence in green bonds. Investors need to be assured, at the time they make investment decisions, that green bonds will be green through to maturity. In a similar vein, the insurance sector highlights the risks connected to having an EU GBS in place without a finalised EU Taxonomy with full technical screening criteria available. From an investor's perspective, relying on the interpretation of issuers and external reviewers based on the fundamentals of the EU Taxonomy brings about uncertainty, which would be interpreted as potential risks. Such risks would emerge not only with respect to the issuance process, eg due to changes in what is considered sustainable and what is not, but also with respect to the proposed requirements for mandatory disclosures. In addition, this could lead to significant discrepancies between green bonds issued under a full taxonomy and bonds issued before or during the transition period. It is vital that such possibilities arising from the evolving nature of the EU Taxonomy framework are accounted for and that the potential consequences are limited, foreseeing changes to the framework that arise after the issuance of a green bond.

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

Insurance Europe also welcomes the **publication requirements of the Green Bond Framework** and the **reporting requirements** (ie allocation reporting, impact reporting). From an investor's perspective, easy access to reliable and usable information is important for the investment decision process and to guarantee adequate clarity and comparability. Mandatory verification by supervised verifiers will facilitate investors' trust in investing in the EU GBS. Equally important, investors rely on accurate ESG information for their reporting.

Beyond the proposed core components of the EU GBS, issuers should be given sufficient flexibility on how to provide information on their EU GBS to investors and other users of non-financial information. Duplication of information should be avoided, and issuers should be allowed to make use of references to the core components of the EU GBS in other documentation that they may need to comply with. In this respect, it is key that, where a prospectus has to be published, the information required in the prospectus are aligned with the mandatory components in the EU GBS and vice versa. Similarly, issuers willing to follow a more rigid standard than that of the EU GBS should be able to include references that the green bond will be aligned with the EU GBS, while more information can be provided in the Green Bond Framework documentation. In particular, for the eligibility of real estate projects, we would also welcome the use —for the performance threshold— of the nationally or internationally recognized standards when the level of certification is high. A successful EU GBS also requires uniformity with other EU-level disclosure requirements.

Question 4: Do you agree with the proposed content of the following documents as recommended by the TEG? Please note that these reporting requirements refer only to the requirements in relation to the issued green bond (it is common in the green bond market to have reporting on the bond). These reporting requirements are not related to disclosure requirements for companies or funds, which arise from the EU Taxonomy Regulation or the Sustainability –related Disclosures Regulation.
If you disagree with the proposed content for some or all of these documents by the TEG, please specify the reasons for your answer.

a) The Green Bond Framework:
- **Yes, I do agree with the proposed content of the Green Bond Framework**

b) The Green Bond Allocation Report:
- **Yes, I do agree with the proposed content of the Green Bond Allocation Report**

c) The Green Bond Impact Report:
- **Insurance Europe response: a. Yes, I do agree with the proposed content of the Green Bond Impact Report**

*Question 5: Do you expect that the **requirement to have the Green Bond Framework and the Final Allocation report verified** (instead of alternatives such as a second-party opinion) will create a disproportionate market barrier for third party opinion providers that currently assess the alignment of EU green bonds with current market standards or other evaluation criteria?*

a. Yes

b. No

c. Don't know / no opinion / not relevant

If yes, please specify the reasons for your answer.

- **No**

The sector welcomes the TEG's recommendation to investigate a legislative proposal to introduce a centralised accreditation regime for external green bond verifiers. Insurance Europe sees benefit in requiring the Green Bond Framework and the Final Allocation report to be verified by accredited verifiers. This will ensure respect of the commitments within the EU GBS, in line with the EU Taxonomy. From an investor's perspective, verification of the alignment of the green bonds with the GBS, together with adequate supervision of verifiers, will remove uncertainty and facilitate sustainable investments. In addition, it removes any room for diverging interpretations of the rules of the EU GBS. This will also lead to greater coherency in verification practices.

Given this, it is difficult to assess the consequences of the accreditation scheme recommended by the TEG, assuming that current providers of second-party opinion and/or third-party opinion succeed in becoming accredited. Generally, any negative consequences of such verification requirements should be carefully assessed and, if necessary, solutions to address such barriers should be investigated. In particular, the insurance sector highlights that the criteria for the accreditation of EU GBS verifiers should prevent the creation of monopolistic market structures, which, by increasing issuance costs, could act as barriers to issuing green bonds. It is important to avoid situations in which ESG agencies hold market- and price-setting powers, as in some cases in the credit rating agency market.

In addition, it is important to note that if a voluntary interim registration process is introduced, as set out in TEG's recommendation #03, there is a risk of 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.

I.3. Questions on the use of proceeds and the link to the EU Taxonomy

The EU Taxonomy Regulation specifies that the Union shall apply the EU Taxonomy when setting out the requirements for the marketing of corporate bonds that are categorised as environmentally sustainable. Given that the EU green bonds initiative will pursue, as its core objective, the aim of delineating the boundaries of what shall constitute an 'environmentally sustainable' bond, the Taxonomy will need to be applied to determine the eligibility of the proceeds of the bond issuance. However, there may be reasons to provide a degree of flexibility with regard to its application, or its application in specific cases.

Building on market practice, the proposed EU GBS by the TEG recommends a use-of- proceeds approach, where 100% of the proceeds of an EU green bond should be aligned with the EU Taxonomy (with some limited flexibility).

The below questions aim to gather stakeholder input on the application of the taxonomy in the context of EU green bonds.

Question 6: Do you agree that 100% of the use of proceeds of green bonds should be used to finance or refinance physical or financial assets or green expenditures that are green as defined by the Taxonomy?

a. Yes, with no flexibility
b. Yes, but with some flexibility (i.e. <100% alignment)
c. No
d. Don't know / no opinion / not relevant

- **Yes, but with some flexibility (i.e. <100% alignment)**

(When the answer is b) Please indicate what thresholds you would suggest:

90%

(When the answer is b) Please explain why you would suggest that thresholds:

It is important to have some flexibility to enable the financing of associated projects. Such projects include:

a) portions that enable the "green" project but do not fulfil the criteria themselves under the same issuance
b) portions that are transitioning to become more sustainable (therefore allowing the project itself to be more sustainable) but do not fulfil the criteria themselves under the same issuance
c) portions that cover assets that are on track to comply with the Taxonomy criteria, but that are not yet captured in it.

The Commission should run a market study to identify the most appropriate thresholds. Such a study should include analyses of green expenditure covered by green bonds in current market practice. Currently, it is not clear enough whether certain expenditure will be eligible under the EU GBS or not; for example, an expenditure by a waste recycling company that plans to cut its GHC emissions by replacing its vehicle fleet with hybrid vehicles (but not electric ones with zero emissions). If the threshold is too high, particularly during the absence of a full EU Taxonomy, it creates a risk of reducing the number the offerings of green bonds in the EU GBS market. It should be noted that the green bond market to date has not seen strong offerings to match investors' demand.

In addition, the EU GBS should consider starting with a lower percentage requirement (for instance 50-60%) that could become more stringent over time. This would allow greater flexibility for issuers and could converge at an 80-90% threshold over time, under a predefined timetable, once the taxonomy has been fully developed. This will also allow EU green bonds to support a greater number of the projects needed for transition. During this transition period, as a minimum requirement, the reporting should include the percentage of alignment with the EU Taxonomy in order to facilitate investors' reporting and ensure consistency of information across portfolios and investors.

The purpose of the "non-green" part of the use of proceeds should be clearly disclosed in the Green Bond Framework at issuance and in the allocation report. The unallocated funds should not be counted in the percentage.

For simplicity of compliance with reporting requirements, the whole EU green bond should be considered as green when disclosing information under other relevant legislation, eg under the Sustainability-Related Disclosures Regulation, Non-Financial Reporting Directive, etc.

Question 7: The TEG proposes that in cases where

1. *the technical screening criteria have not yet been developed for a specific sector or a specific environmental objective or*
2. *where the developed technical screening criteria are considered not directly applicable due to the innovative nature, complexity, and/or the location of the green projects, the issuer should be allowed to rely on the fundamentals of the Taxonomy to verify the alignment of their green projects with the Taxonomy.*

   This would mean that the verifier confirms that the green projects would nevertheless
   - i. *substantially contribute to one of the six environmental objectives as set out in the Taxonomy Regulation,*
   - ii. *do no significant harm to any of these objectives, and*
   - iii. *meet the minimum safeguards of the Taxonomy Regulation.*

Do you agree with this approach?

- a. *Yes, both 1. and 2.*
- b. *Yes, but only for 1.*
- c. *Yes, but only for 2.*
- d. *No*
- e. *Don't know / no opinion / not relevant*

- **Yes, but only for 1**

Question 7.1 Please specify the reasons for your answer to question 7.

What is key here is that reliance on the fundamentals of the EU Taxonomy does not create unnecessary uncertainty for investors so that they can invest with confidence in EU green bonds. For this to happen, there need to be appropriate guardrails in place to ensure issuers and verifiers properly respect the EU Taxonomy when interpreting the fundamentals. In addition, it is also important that investors see a strong track record in covering more new green projects without compromising the quality of the positive green impacts of such projects.

In order for EU green bonds to support more new green projects, it is reasonable to allow issuers to rely on an alternative approach when the technical screening criteria are not available, given the evolutionary nature of the technical screening criteria. A certain flexibility might also be necessary for projects located outside the EU, eg in developing or emerging markets (see below).

While a degree of flexibility is key, proper verification of the chosen approach will also be vital to ensure the quality of the green bonds issued under the GBS and that consistency of sustainability definitions is achieved when the technical screening criteria are unavailable or not directly applicable. This will avoid compromising the key objective of the EU GBS, ie to "protect the integrity and trust in the sustainable finance market" as envisaged in the 2018 Commission action plan on financing sustainable growth.

The insurance sector wishes to highlight difficulties in applying the EU Taxonomy in emerging markets and/or developing economies at different stages of transition. The EU Taxonomy cannot be applied directly without local adaptation, particularly on social and governance aspects. Given the absence of an holistic EU Taxonomy covering all ESG aspects, reliance on the fundamentals when applying the EU Taxonomy to such markets can create uncertainty over the alignment with the EU Taxonomy. Consideration and further development in the preliminary work of the TEG on the international use of the taxonomy would thus be welcome.

Question 7.2 Do you see any other reasons to deviate from the technical screening criteria when devising the conditions that Green Bond eligible projects or assets need to meet?

- **No**

Question 8: As part of the alignment with the EU Taxonomy, issuers of EU Green Bonds would need to demonstrate that the investments funded by the bond meet the requirements on ***do-no-significant-harm (DNSH) and minimum safeguards****. The TEG has provided guidance in both its Taxonomy Final Report and the EU GBS user guide on how issuers could show this alignment.*
Do you foresee any problems in the practical application of the DNSH and minimum safeguards for the purpose of issuing EU Green bonds?

a. Yes
b. No
c. Don't know / no opinion / not relevant

Please specify the reasons for your answer.

- **Yes**

It is vital that analysis of the requirements on DNSH and minimum safeguards is not a box-ticking exercise. While Insurance Europe welcomes the guidance provided by the EU GBS, particularly the level of analysis at project level, more detailed guidance is needed to clarify how such in-depth analysis should be conducted by issuers in practice through the environmental and social impact assessment. Specifically, more clarity is needed on what exactly should be checked and how it should be conducted (eg when it constitutes "significant harm" and how, in detail, it should be tested).

Question 9: Research and Development (R&D) plays a crucial role in the transition to a more sustainable economy, and the proposed EU GBS by the TEG explicitly includes such expenditure as eligible use of proceeds. Do you think the EU GBS should provide further guidance on these types of activities, to either solve specific issues with green R&D or further boost investment in green R&D?

a. Yes, as there are specific issues related to R&D that should be clarified
b. Yes, the proposed EU GBS by the TEG should be changed to boost R&D
c. No, the proposed EU GBS by the TEG is sufficiently clear on this point
d. Don't know / no opinion / not relevant

- **Yes, as there are specific issues related to R&D that should be clarified**

Question 9.1 (When the answer is a or b) If you do think the EU GBS should provide further guidance on these types of activities, please identity the relevant issues or incentives:

R&D has the potential to increase the supply of green projects and assets, which is welcome from an investor's perspective. What is key here is that issuers are able to use the proceeds from green bonds to finance R&D aimed at developing solutions to enable or achieve the transition to more sustainable activities. A crucial element of the EU GBS is supporting the financing of new projects that promote the transition of "not-green" activities and sectors to greater sustainability, as currently described under the EU Taxonomy.

Therefore, the industry is of the opinion that enhanced clarity in relation to R&D operational expenditure in the proposed EU GBS would be helpful and needed for practical application. Additional guidance could also provide examples of what kind of expenditure can be specifically recognised as an eligible use of proceeds, how the issuer should assess the feasibility of R&D, and how the results of such assessments should be disclosed.

Another key point here is to provide investors with access to information to be able to assess the potential of R&D at the time of bond issuance, even before the R&D is completed. This will help investors' decision-making process by providing more clarity on the type and purpose of the R&D.

I.4. Questions on grandfathering and new investments

Question 10. Should specific changes be made to the TEG's proposed standard to ensure that green bonds lead to more new green investments?

a. Yes
b. No
c. Don't know

- **No**

Question 11. The EU Taxonomy technical screening criteria will be periodically reviewed. This may cause a change in the status of issued green bonds if the projects or assets that they finance are no longer eligible under the recalibrated taxonomy.
In your opinion, should an EU Green Bond maintain its status for the entire term to maturity regardless of newly adapted taxonomy criteria?

a. Yes, green at issuance should be green for the entire term to maturity of the bond
b. No, but there should be some grandfathering
c. No, there should be no grandfathering at all. If you no longer meet the updated criteria, the bond can no longer be considered green
d. Don't know / no opinion / not relevant

- **Yes, green at issuance should be green for the entire term to maturity of the bond**

Question 11.1 Please specify the reasons for your answer to question 11:

It is important that an EU green bond maintains its status for the entire term through to maturity. Insurance Europe welcomes the certainty ensured by grandfathering for outstanding EU green bonds regardless of the subsequent changes to the EU Taxonomy as provided in the proposed EU GBS. This will help investors to invest in EU green bonds with confidence. In addition, absence of grandfathering can dampen investor interest. It is also vital that relevant legislation on disclosure ensures that the stock of green bonds issued before the implementation of the EU GBS that do not meet the EU Taxonomy technical screening criteria are considered as green through to maturity.

In the same vein, voluntary requalification of existing bonds as EU green bonds by issuers 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.

The industry notes, in cases where the evolution of thresholds is already known, that an issuer must plan to align its activities with those thresholds at issuance. However, it is of the utmost importance that once a bond has been qualified as "green" at issuance, it remains green for the entire term to maturity. If not, this will create uncertainties, confusion and market risks.

I.5. Question on incentives

Question 12. Stakeholders have noted that the issuance process for a green bond is often more costly than for a corresponding plain vanilla bond.

Which elements of issuing green bonds do you believe lead to extra costs, if any?

	1 (no additional costs)	*2 (low extra cost)*	*3 (extra cost)*	*4 (high extra cost)*	*5 (very high extra cost)*	*Don't know/No opinion/ N/A*
Verification			**x**			
Reporting			**x**			
More internal planning and preparation			**x**			
Other						

Question 12.1 Please specify the reasons for your answer to question 12, and if possible, provide the estimated percentage and monetary increase in costs from issuing using the EU GBS, or – ideally – the costs (or cost ranges) for issuing green bonds under the current market regimes and the estimated costs (or cost range) for issuing under the EU GBS:

As investors, insurers are not directly impacted by these extra costs. There is no evidence of an impact of such extra costs on bond prices. However, these issues are negatively affecting the EU green bond market today, leading to a lack of issuance.

Question 13: In your view, how would the costs of an official standard as proposed by the TEG compare to existing market standards?

- *1 - Substantially smaller*
- *2 - Somehow smaller*
- *3 - Approximately the same*
- *4 - Somehow higher*
- *5 - Substantially higher*

Please specify the reasons for your answer.

Not applicable

Question 14: Do you believe that specific financial or alternative incentives are necessary to support the uptake of EU green bonds (green bonds following the EU GBS), and at which level should such incentives be applied (issuer and/or investor) ?
Please express your view on the potential impact:

	1 (very low impact)	2 (rather low impact)	3 (a certain impact)	4 (rather high impact)	5 (very high impact)	Don't know/No opinion/ N/A
Public guarantee schemes provided at EU level, as e.g. InvestEU			x			
Alleviations from prudential requirements	x					
Other financial incentives or alternative incentives for investors					x	
Other incentives or alternative incentives for issuers?						x

Question 14.1 Please specify the reasons for your answer to question 14, in particular if you indicated an important impact of "other incentives or alternative incentives":

General comments on incentives
As Europe's largest institutional investors, insurers support measures to stimulate the development of the green bond market as a key tool for financing the sustainability transition. The proposed incentives would therefore be welcome, provided they are not distortive. In this respect, Insurance Europe does not support green supporting factors, which are arbitrary and not risk-based, as incentives to support the uptake of green bonds. However, there are flaws in the Solvency II framework. Correcting these flaws will result in justified, risk-based reductions in capital requirements and will create strong incentives when combined with the EC's powerful regulatory initiatives (SFDR, Taxonomy, NFRD, Green Deal) and insurers' own natural interest and business model.

The improvements needed to rectify the flaws are:
- reduce significantly the Risk Margin
- meaningful improvements to the calibration and design of the Volatility Adjustment (VA) and
- incorporate the Dynamic VA into the standard formula for the spread-risk SCR calculation (something already allowed for companies using internal models)

Rectifying Solvency II flaws
Insurers' long-term business model creates a need and ability to invest in long-term sustainable assets and insurers have been at the forefront of sustainable investment. However, there are flaws in Solvency II that create unnecessary disincentives related to a) how available capital is measured and b) how capital charges for assets (including bond investments) are measured.

The flaws in **how available capital is measured restrict insurers' ability to take on the long-term liabilities that give insurers the need and ability to invest in green bonds**. Under Solvency II, the available capital is calculated as the value of assets less the value of liabilities. Currently an excessively high Risk Margin is added to the real claims and cost provisions, resulting in liability values that are exaggerated, especially long-term liabilities. The Volatility Adjustment requires improvement because it is too low, resulting in another source of exaggeration of liabilities, and it does not prevent artificial volatility as intended, resulting in excessive and undue volatility in available capital. This would especially be the case if a company invests in green bonds that are long-term and/or higher than average risk (compared to all fixed income investments).

Flaws in how the required capital for assets is set result in unnecessarily high capital that can also make investment in green bonds unattractive. These flaws arise because Solvency II does not correctly reflect the long-term nature of insurance. This long-term perspective means that insurers can choose to hold assets long-term and have great flexibility over whether they sell assets, when they sell assets and which assets they sell. This in turn means that, for bonds, including green bonds, the real risk is not exposure to extreme market spread movements but to losses from actual defaults being higher than expected for a portfolio of bonds. A straightforward way to incorporate this into the Solvency II framework is to add to the standard formula the Dynamic Volatility Adjustment.

Arbitrary "green support" alleviations of prudential requirements due only to a bond being green and without risk-based justification are not supported. Such actions would create artificial risk/return trade-off distortions, undermine good risk management and lead to valuation bubbles.

Other financial incentives or alternative incentives for investors
The EC's powerful regulatory initiatives (SFDR, Taxonomy, NFRD and wider Green Deal) all create significant incentives and requirements for insurers to use their investment needs and capacity to invest sustainably. If the flaws in Solvency II are fixed, insurers' full capacity for long-term investment will be unleashed and with about 70% of all assets currently invested in fixed income there will be a significant incentive to invest in green bonds.

Other incentives or alternative incentives for issuers
The sector is cautious about a grant scheme to subsidise — totally or partially — the additional costs associated with external verification of EU green bonds. The sector believes that this measure should not lead to increased costs for 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 target grant schemes or other financial incentives directly at the real economy, rather than at the financial instrument.

While tax incentive schemes for issuers of EU green bonds could be beneficial, care must be taken to assess their efficiency and effectiveness — in particular to assess whether it is more cost-effective to address such schemes directly to real economy (eg subsidies for green buildings, renewable energy, etc.), rather than for financial debt instruments.

I.6. Other questions related to the EU GBS

The EU GBS as recommended by the TEG is intended to apply to any type of issuer: listed or non-listed, public or private, European or international.

Question 15. Do you foresee any issues for public sector issuers in following the Standard as proposed by the TEG?
- *a. Yes*
- *b. No*
- *c. Don't know / no opinion / not relevant*

Please explain your answer.

- **No**

The insurance industry encourages public issuers, including member states, to make use of the EU GBS for their green bond issuance, including the issuance of sovereign green bonds.

Question 16. Do you consider that green bonds considerably increase the overall funding available to or improve the cost of financing for green projects or assets?
- *a. Yes*
- *b. No*
- *c. Don't know / no opinion / not relevant*

Please explain your answer. If possible, please provide estimates as to additional funds raised or current preferential funding conditions:

- **Yes**

The EU GBS has a great potential to channel funding to green projects/assets, making it easier for issuers to finance them. It is vital that the EU GBS gives due consideration to market dynamics in its design in order to achieve its full potential.

In terms of market dynamics, the industry would like to highlight that green bonds are generally oversubscribed. If incentives to improve the pipelines of green projects and their attractiveness are provided, they should not crowd out private investors. Public financing should be directed to economically viable projects that would not otherwise receive private finance.

Non-European issuers might face potential issues related to specific EU-related legislation (eg the EU Taxonomy), as well as EU terms and conditions such as the EU GBS. In addition, international issuers may want to use standards from their own countries. While technical alignment with the EU GBS is possible in theory, disagreements on the sustainability of the sector, thresholds or Do-No-Significant Harm (DNSH) in the EU Taxonomy may limit their adoption in practice. To mitigate or avoid these issues, the EU GBS needs to be built on appropriate methods based on transparency.

The establishment of the EU GBS has the potential to become a global standard for green bonds, putting the EU in the lead in the sustainability agenda and creating a level playing field for European investors. The industry wishes to stress that the EU GBS should not result in a fragmented market. The current level of global coordination between public players on sustainable finance is not sufficient to promote sustainable finance globally. As capital markets and insurers' investments are global, the industry encourages the EC to collaborate with other jurisdictions to create a green bond standard that can be used and is appealing also for non-European bonds. Further policy action is needed to promote global standards and best practices, as well as to constantly increase the number of countries involved in the effort to move towards a more sustainable economy.

II. Questions on Social Bonds and COVID-19

During the ongoing COVID-19, financial markets have so far responded with significantly increased issuance of social bonds responding to the impact of COVID19. These social bonds often follow established market-based Social Bond Principles. The Commission is seeking the input of stakeholders on the lessons learned from this new development, including whether the Commission can play an even greater supportive role in building resilience to address future potential crises.

Question 17. To what extent do you agree with the following statements?

	1 (strongly disagree)	*2 (rather disagree)*	*3 (neutral)*	*4 (rather agree)*	*5 (strongly agree)*	*Don't know/No opinion/ N/A*
Social bonds are an important instrument for financial markets to achieve social objectives.				**X**		
Social bonds targeting COVID19 are an important instrument for financial markets in particular to help fund public and private response to the socio-economic impacts of the pandemic.			**X**			
Social bonds targeting COVID19 are mostly a marketing tool with limited impact on funding public and private responses to the socio-economic impact of the pandemic.		**X**				

Social bonds in general are mostly a marketing tool with limited impact on social objectives.		x				
Social bonds in general require greater transparency and market integrity if the market is to grow.					x	

Question 18. The Commission is keen on supporting financial markets in meeting social investment needs. Please select one option below and explain your choice:

a. The Commission should develop separate non-binding social bond guidance, drawing on the lessons from the ongoing COVID19, to ensure adequate transparency and integrity.
b. The Commission should develop an official EU Social Bond Standard, targeting social objectives.
c. The Commission should develop an official "Sustainability Bond Standard", covering both environmental and social objectives.
d. Other Commission action is needed.
e. No Commission action is needed in terms of social bonds and COVID19.

- **Other Commission action is needed**

(When the answer is d) Please specify what other Commission action(s) is needed:

Before taking actions such as those indicated in the question, there is a need to reach a common understanding of what is "socially" sustainable. Ideally, a social taxonomy would address this concern, but the development of this taxonomy is time- and resource-consuming, as experience with the EU environmental taxonomy has shown. Instead of developing new standards that might not suit issuers' or investors' understanding of sustainability, **the industry encourages the EC to focus on transparency over what is "socially sustainable".** This should be prioritised, given that the current environmental taxonomy already empowers the EC to assess the possibility of building a social taxonomy.

In this respect, the industry notes that:

- The minimum safeguards in the EU Taxonomy are a good starting point from which to consider the social aspect of sustainability.
- Consistency across legislation is key. Beyond the minimum safeguards of the taxonomy, there are already cases where certain social requirements are envisaged. For example, the SFDR and its RTS, which are being developed, also introduce social indicators.
- Without high-level consensus on what the overarching elements of a social taxonomy should be, it is important that there is enough flexibility for market-led initiatives to define appropriate frameworks and the social elements of sustainability, and that no indicators/framework that are restrictive or open to challenge are proposed.

Question 19. In your view, to what extent would financial incentives for issuing a social bond help increase the issuance of such bonds?

1 - Very strong increase
2 - Rather strong increase
3 - Rather low increase
4 - Very low increase
5 - No increase at all

Please explain what kind of financial incentives would be needed.

- **Very low increase**

While financial incentives for issuers would have a certain impact in increasing funding to projects that meet social objectives, it might be more efficient for the EU or member states to target financial incentives directly at the real economy, rather than at financial instruments.

The most powerful lever to facilitate transition is a common understanding of what is "socially" sustainable rather than financial incentives. To date, corporates issuers are not really involved in this. A common understanding will help to better identify how corporates could issue social bonds. In addition, the absence of a common understanding might result in a financing disadvantage for investments targeting the social dimension, raising the risk of crowding out sustainable investment focused on social aspects.

In principle, the European insurance sector supports a holistic approach to sustainability, which includes all ESG factors. When it comes to investment decisions, the environmental, social and governance components are implicitly connected and mutually interdependent. Investments related to social factors are already of significant importance to insurers in a number of EU countries. For this reason, the insurance industry recognises the importance of extending the scope of the EU Taxonomy in the future, as provided for in the EU Taxonomy Regulation.