



Legal Update

European Parliament approves new Green Bond Standards.

The European Parliament (“EP”) has adopted a new voluntary standard for the use of a “European Green Bond” label. This will be the first of its kind in the world. The proposed new Regulation (COM (2021) 0391) adopted to provide for this sets out uniform standards for issuers who wish to use the designation “European green bond” or “EuGB” for the marketing of their bond.

Background

The green bond market has seen major growth since 2007 with annual green bond issuance breaking through the USD half trillion mark for the first time in 2021. This was a 75% increase from 2020. Europe is the most prolific issuance region with 51% of the global volume of green bonds in 2020. Green bonds represent about 3-3.5 % of overall bond issuance. Providing for green bonds is part of the European Green Deal.

New Standards

The new proposed Regulation adopted by the EP sets out several standards for issuers who wish to use the European green bond label (the “Standards”). These Standards will enable investors to direct their money more confidently towards more sustainable technologies and businesses. It also gives the company issuing the bond more certainty that their bond will be suitable for investors who wish to add green bonds to their portfolio and lessens concerns of accusations of “greenwashing”. This is expected to increase interest for this type of financial product and support the EU’s transition to climate neutrality.

The standards align with the EU’s taxonomy framework that defines which economic activities the EU considers environmentally sustainable. All companies choosing to adopt the standards will be required to disclose considerable information about how the bonds proceeds will be invested. The Standards therefore effectively require compliant companies to be engaging in a general green transition.

Further Details

The Regulation establishes a registration system and supervisory framework for external reviewers of European green bonds. Initially issuers of a European Green Bond would need to ensure that at least 85% of the funds raised by the bond are allocated to economic activity that aligns with the EU’s Taxonomy Regulation. It is expected the Regulation will provide businesses with an optimal tool to finance the shift to a green transition as it provides a transparent and trustworthy means of driving a company transition plan.

The Regulation as adopted by the EP must next be approved by the Council and published in the Official Journal before becoming effective.

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