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NEW EUROPEAN GREEN BONDS LABEL A FIRST GLOBAL WORLDWIDE STANDARD

BACKGROUND

The European Council has adopted on 23 October 2023 a new regulation creating the first European green bonds standard (the "**Regulation**"). The Regulation has been published in the EU's Official Journal on 30 November 2023 with an entry into force 20 days later, i.e. on 20 December 2023. The Regulation will start applying 12 months after its entry into force, on 20 December 2024.

The current economic context shows that environmentally sustainable bonds are one of the main instruments financing the green energy transition and investments related to green technologies.

The new standard introduced by the Regulation will foster consistency and comparability in the green bonds market on an EU level playing field and will be benefitting both issuers and investors. The Regulation lays down identical requirements for issuers of environmentally sustainable bonds that wish to use the designation 'European Green Bond' ("**EuGB**") as a label. It is further establishing a system for the registration and supervision of entities acting as external reviewers for European green bonds, and regulates the supervision of issuers of EuGB.

WHAT'S IN IT FOR INVESTORS?

Investors' confidence in green investments will be enhanced by the new regulatory EuGB framework that stimulates capital flows into environmentally sustainable projects.

As the Regulation aims to put an end to bonds' greenwashing, it enables investors to place their money with confidence in activities that are in line with the European taxonomy of sustainable activities.

ADVANTAGES FOR ISSUERS

The new European standard will be open to any issuer of green bonds including issuers from third countries. The Regulation will be voluntary, meaning that issuers may opt (or not) to adhere to the rules set by it.

The Regulation further ensures that issuers' products are suitable for investors wishing to add green bonds to their portfolios.

The EuGB designation may be used to securitisation bonds under the specific terms provided for in the Regulation.

ISSUANCE REQUIREMENTS

The EuGB label will be granted only if the following conditions are met:

- Issuers must demonstrate that they are **funding legitimate green projects aligned with the EU taxonomy** (including climate change mitigation, adaptation measures to climate change, sustainable use and protection of aquatic and marine resources, transition to a circular economy, pollution control, protection and restoration of biodiversity and ecosystems). This is to ensure the usability of the European green bond standard from the start of its existence.
- At least **85% of the funds raised** by the bonds must be **allocated to sustainable economic activities in accordance with the EU taxonomy**. A **flexibility pocket of 15%** may be allocated for sectors not yet covered by the EU taxonomy and for certain very specific activities, provided that the issuer can clearly justify where such investments will take place. The use and the need for this flexibility pocket will be re-

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evaluated as Europe's transition towards climate neutrality progresses with the increasing number of attractive and green investment opportunities that are expected to become available in the coming years.

- In order to ensure compliance of the green labelled bonds with the Regulation, a **supervisory framework and a registration system of external examiners with the European Securities and Markets Authority (ESMA)** is created. This registration is subject to a number of specific conditions to be complied with by applicants and assessed by ESMA. The role of these external examiners is to assess the alignment of the funded projects with the EU taxonomy.
- Issuers will have to fulfil specific **reporting obligations**:
 - ✓ They must issue on a yearly basis an allocation report (until the year of full allocation of the proceeds of their green bonds) which demonstrates that the proceeds of the EuGB, from issuance date until the end of the period referred to in the report, have been allocated in accordance with the standards of the Regulation.
 - ✓ Every allocation report by issuers that allocate the proceeds of one or more EuGB to a portfolio of assets shall be subject to a post-issuance review by an external reviewer.
 - ✓ Issuers shall, after the full allocation of the proceeds and at least once during the lifetime of the bonds, draw up and make public a European green bonds impact report on the environmental impact of the use of the bonds' proceeds.

- In order to use the EuGB designation, issuers shall **publish a prospectus** that meets specific conditions detailed in the Regulation.
- Issuers shall **publish on their websites** and make available free of charge an EuGB factsheet, a pre-issuance review, the allocation report, the post-issuance review, and the impact report.

Finally, to prevent greenwashing in the green bonds market in general, the Regulation also provides for some voluntary disclosure requirements for other environmentally sustainable bonds and sustainability-linked bonds issued in the EU.

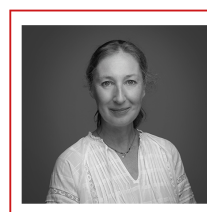
WHAT'S NEXT?

By 21 December 2024, the Commission will publish complementary guidelines establishing templates for voluntary pre-issuance disclosures for issuers of bonds marketed as environmentally sustainable and of sustainability-linked bonds.

USEFUL LINKS

- [European Green Bonds Regulation \(23 October 2023\)](#)
- [Adoption Note of European Green Bonds Regulation](#)
- [Sustainable Finance: Provisional agreement reached on European Green Bonds \(Press release - 28 February 2023\)](#)
- [European Council publication on financing the climate transition](#)

12 January 2024



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