

## EU to promote its standard for eligible expenditure and disclosure process in green bond market

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On 12 October, the European Commission (EC) issued its debut green bond for the purpose of securing finance for the EU fund, which was created to aid the economy after COVID-19. It raised 12 billion euros, which is the world's largest green bond issuance ever. In July, the EC, in cooperation with the European Securities and Markets Authority, proposed a Regulation to create the "European Green Bond Standard <sup>(Note)</sup>", aiming to establish an EU-wide standard. As further time was needed for the European Council to legislate on the above proposals, the current green bond was then issued based on the framework published by the EC on 7 September (NextGenerationEU Green Bond Framework, Table 1), which was created in accordance with the proposals as much as possible.

Within the framework, it is established that the EU Taxonomy, which focuses on attaining greenhouse gas reduction targets agreed at the 2019 European Green Deal (for net zero with economic growth decoupled from resource use) will be taken into account when selecting expenditure of NGEU funds. In addition, the EC will closely scrutinise the process for green bonds, from funding to the management of proceeds, in line with the Recovery and Resilience Plans which are made when Member States apply for NGEU. This process will also be disclosed to outside parties such as investors. The framework also intends to promote EU environment-related initiatives (e.g. the EU Emissions Trading System, the Carbon Border Adjustment Mechanism, etc.) which aim to support net-zero efforts.

The focus on net-zero carbon emissions is growing in both the EU and globally, and the green bond market is forecast to expand rapidly in the future (Chart 1). Green bonds are increasingly attracting interest in capital markets, but there has been no consensus on a unified definition and rules for green bonds internationally. The EU is forecast to issue the largest number of green bonds (a total of 250 billion euros by 2026). Against that background, the EC "is aware of the responsibility that comes with this status, including in terms of setting an example". The EU is moving into the green bond market by promoting its standard for eligible expenditure and disclosure process. We will keep monitoring the possibility that it will become the de-facto international standard.

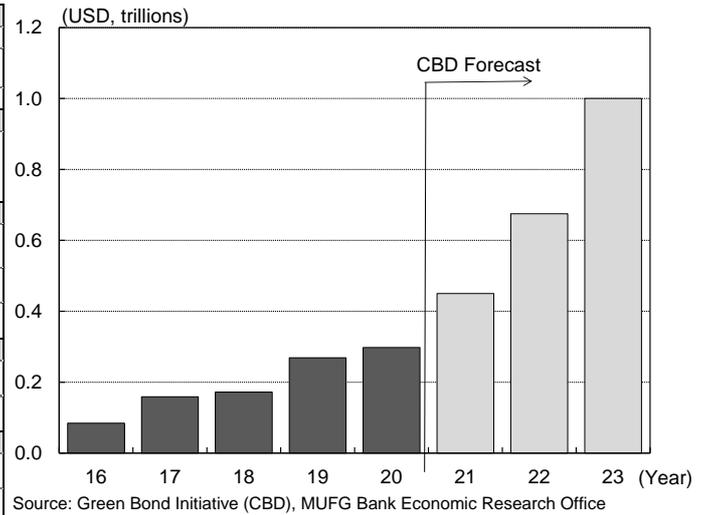
Note: The issuing entity outside the EU can issue bonds under the name 'European Green Bonds' if it meets EU standard such as Taxonomy.

Table 1: Summary of NextGenerationEU Green Bond Framework

<b>Background</b>
The EU will become the largest green bonds issuer of in the world in line with its NGEU programme
Importance in ensuring consistency with the Standard for European Green Bonds standard and EU Taxonomy to set an example
Parts of the EU Taxonomy is used in the framework of the management procedure of NGEU funds
<b>Section 1: Use of proceeds</b>
Eligible categories for procured funds: 1. Research and innovation supporting the green transition; 2. Digital technologies supporting the green transition; 3. Energy efficiency; 4. Clean energy and network; 5. Climate change adaptation; 6. Water & waste management; 7. Clean transport & infrastructure; 8. Nature protection, rehabilitation and biodiversity.
<b>Section 2: Process for expenditure evaluation and investment selection</b>
A minimum of 37% of the recovery funds (portion of total to be allocated to green bonds' capital) is to be selected as a performance base standard for green related initiatives
Possible to use green bonds' funds to environment-related objectives that are considered under EU Taxonomy list.
Countries are distributed additional procurement of funds on the condition of completed mid-term objectives and progress reporting of green investments.
<b>Section 3: Management of proceeds</b>
The European Parliament and the Council will supervise the payment to each country and the European Court of Auditors will oversee the approval process.
Other usage of the NGEU green bonds' funds will be scrutinised annually by the European Court of Auditors
<b>Section 4: Reporting</b>
The Commission will provide investors and the public with transparent reporting on the expenditure and influence of the NGEU green bonds' funds.
1) Allocation reporting – The Commission will publish reports on payments to Member states and progress programs annually
2) Impact reporting – The Commission will publish information on the climate change and environment contributions of recovery funds.

Note: Summary of Section 3 'NGEU GREEN BOND FRAMEWORK'  
 Source: European Commission, MUFG Bank Economic Research Office

Chart 1: Amount of Green Bond Issuance



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