International
Capital
Market
Association

2 October 2020

ICMA response to the EC consultation on the EU Green Bond Standard (EU GBS)

The International Capital Market Association (ICMA) welcomes the opportunity to provide feedback to the European Commission on the consultation on the EU GBS.

ICMA is a membership association, headquartered in Switzerland, committed to serving the needs of its wide range of members. These include private and public sector issuers, financial intermediaries, asset managers and other investors, capital market infrastructure providers, central banks, law firms and others worldwide. ICMA currently has around 600 members located in over 60 countries.

This feedback is given on behalf especially of the Green & Social Bond Principles Executive Committee (GBP ExCom), as well as other ICMA constituencies through our Sustainable Finance Committee.

The attached responses were submitted to the consultation using the European Commission's online questionnaire. The document has also been uploaded to support the questions for which no response box was available.

Yours faithfully,

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I. QUESTIONS ON THE EU GREEN BOND STANDARD

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

Q1: In your view, which of the problems mentioned below is negatively affecting the EU green bond market today? How important are they? Please select and rate the extent of the impact on a scale of 1 to 5 (1 no impact, 5 very strong impact). Multiple answers are possible.

a. Absence of economic benefits associated with the issuance of green bonds - **4**

b. Lack of available green projects and assets - **3**

c. Uncertainty regarding green definitions - **3**

d. Complexity of the external review procedure(s) - **3**

e. Cost of the external review procedure(s) - **3**

f. Costly and burdensome reporting processes - **3**

g. Uncertainty with regards to the eligibility of certain types of assets (physical and financial) and expenditure (capital and operating expenditure) - **3**

h. Lack of clarity concerning the practice for the tracking of proceeds - **1**

i. Lack of transparency and comparability in the market for green bonds - **3**

j. Doubts about the green quality of green bonds and risk of green washing - **3**

k. Other (if so, please specify) [BOX]

Q2: 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? Please indicate which specific barriers it would address on a scale of 1 to 5 (1 negative impact, 3 no impact, 5 positive impact). Multiple answers are possible.

a. Absence of economic benefits associated with the issuance of green bonds - **2**

b. Lack of available green projects and assets - **3**

c. Uncertainty regarding green definitions - **3**

d. Complexity of the external review procedure(s) - **2**

e. Cost of the external review procedure(s) - **2**

f. Costly and burdensome reporting processes - **2**

g. Uncertainty with regards to the type of assets (physical and financial) and expenditure (capital and operating expenditure) – **4**

h. Lack of clarity concerning the practice for the tracking of proceeds - **3**

i. Lack of transparency and comparability in the market for green bonds - **4**

j. Doubts about the green quality of green bonds and risk of green washing - **3**

k. Other (if so, please specify) [BOX]

While we agree that the proposed EU GBS will address some of the barriers mentioned in Q1, we do have additional concerns around the newly introduced principles of DNSH and minimum safeguards. Although the guidance in the Taxonomy Final Report and the EU GBS user guide for alignment with the DNSH principle and / or minimum safeguards will be helpful we expect that time will be required for greater market understanding and best practice to emerge for issuers and verifiers including for projects within the EU.

For example, we can see problems for issuers of green bonds financing SME and/or retail clients regarding, e.g. technical requirements for the building sector or general adaptation as well as with respect to data availability, IT systems etc. The need for an individual check of DNSH and minimum safeguards for smaller projects (threshold still tbd), even if minimum safeguards can be checked at company level, would bear high additional costs. Consequently, market conditions might become completely unattractive and therefore hinder further growth for green financings within the SME and retail area as well as further growth of the green bond market as a whole and specifically issues compliant with the EU GBS.

We can also see difficulties for non-European issuers or EU issuers intending to finance projects outside of the EU, if local environmental and social standards and/or regulations significantly diverge from those of the EU. For issuers in other developed markets, there may be sensitivity/reluctance in doing an actual comparison of company or national environmental and social rules with EU regulations through a verifier's opinion. This may be particularly problematic when comparing regulatory frameworks across jurisdictions. Additionally, in instances where assessing compliance with DNSH criteria requires significant judgment, there may be difficulties in making such representation or relying on the analysis of a verifier to do so.

For developed and emerging markets alike, not all third countries have signed up to the ILO Declaration on Fundamental Principles and Rights at Work, allow freedom of association or recognise collective bargaining. As a result, we think more clarification is needed on how issuers and projects in these jurisdictions may be able to implement procedures that qualify as minimum safeguards.

We therefore recommend that the future Platform engage in an ongoing dialogue with the market on this topic and consider additional guidance as appropriate. We also make concrete suggestions on how to address many of these issues in subsequent answers to related questions in this consultation.

Questions on the proposed content of the standard

Q3: To what extent do you agree with the proposed core components of the EU GBS as recommended by the TEG? Please express your views using the scale from 1-5 (1 strongly disagree, 3 neutral, 5 strongly agree). Multiple answers are possible.

a. Alignment of eligible green projects with the EU Taxonomy - **3**

b. Requirement to publish a Green Bond Framework before issuance – **5**

c. Requirement to publish an annual allocation report - **4**

d. Requirement to publish an environmental impact report at least once before final allocation - **3**

e. Requirement to have the (final) allocation report and the Green Bond framework verified - **3**

Please specify the reasons for your answer [BOX]

Q3 Response:
The EU GBS is aligned with the EU Taxonomy which unlike the Green Bond Principles, uses activities instead of projects. Especially given the taxonomy is still under development we think it might be difficult for issuers to translate activities into projects. The EU GBS, however, takes a decisive view on certain minimum standards that the GBP left open for interpretation which should be helpful to the market in determining the greenness.

Many Green Bond issuers use the proceeds to finance and refinance a portfolio of Green Projects, which allows for immediate disbursement. Requiring an environmental impact report before final allocation would mean that it would need to be done prior to issuance. It should either be a requirement to do so within one-year of issuance, or as currently proposed by the draft EU GBS text: "Issuers shall report on impact of Green Projects at least once during bond lifetime after full allocation of the bond proceeds to Green Projects and thereafter, in case of material changes in this allocation.

Q4: Do you agree with the proposed content of the (a) Green Bond Framework, (b) Green Bond allocation report, and (c) Green Bond impact report as recommended by the TEG?1 Select which elements you agree with. Multiple answers are possible.

a. I agree with the proposed content of the Green Bond Framework. - x

b. I agree with the proposed content of the Green Bond Allocation Report. - x

c. I agree with the proposed content of the Green Bond Impact Report.

d. None

e. Do not know

If you disagree with the proposed content for some or all of these documents by the TEG, please specify the reasons for your answer [BOX]

<u>Q4 Response</u>:
Especially while the EU Taxonomy is not fully developed, we can see it being problematic for an issuer having to do their impact reporting based on the quantitative metrics and thresholds which are being developed under the technical screening criteria in the EU Taxonomy which might not be what they consider to be the main environmental benefits of their project. Impact reporting is seen by most issuers as being a very costly and time-consuming process. While there are a few large issuers, that seem to have made reporting more manageable through a big upfront investment in e.g. IT infrastructure and additional communication, for most issuers (including very large ones) this is not the case.

Q5: 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 - x**

c. Do not know

If yes, please specify the reasons for your answer [BOX]

Questions on the use of proceeds and the link to the EU Taxonomy

Q6 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. Do not know - x

Please specify the reasons for your answer. If you selected b., please indicate what thresholds you would suggest, and why.

Response to Q6
While the GBP require that 100% of the use of proceeds must be dedicated towards green projects, we can see that for 100% to be taxonomy compliant will likely be too difficult for an EU Green Bond at least in the initial phase and while technical screening criteria for the remaining four objectives of the taxonomy are still being developed. We therefore suggest that 100% must be directed towards green projects with two forms of flexibility for the EU Taxonomy alignment as proposed by the TEG for the EU GBS:

First, for specific cases where the TSC may not be directly applicable as a result of the innovative nature, the complexity, the location and/or other legitimate factors of the Green Project(s).

Second, as the EU Taxonomy will be developed progressively over time, for cases where the TSC have not yet been developed, such as for example for specific sectors or the four outstanding environmental objectives.

In these cases, the TEG recommendation is that an approved Verifier shall confirm that the Green Projects i) contribute substantially to at least one of six Environmental Objectives of the EU Taxonomy, while ii) not significantly harming any of the other Environmental Objectives, and iii) complying with minimum safeguards.

Q7: 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) - x

b. Yes, but only for (1)

c. Yes, but only for (2)

d. No

e. Do not know

Please specify the reasons for your answer. 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? If so, please clearly specify the reason for your answer and, where applicable, the respective area or (taxonomy-defined) activity.

Q7 Response:

The flexibility provided by the EU GBS for issuers to rely on the fundamentals of the Taxonomy to verify the alignment of their green projects is essential when (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 Taxonomy is a tool developed especially for activities in Europe and therefore refers to European rules and regulations. The Green Bond Market, however, focuses on assets/projects and is a global market with different regions of the world at very different stages of development. When requiring full compliance with the Taxonomy without granting flexibility for projects outside Europe, the issuance of EU Green Bonds will be limited. Moreover, we think that a sufficient level of comfort is given to investors by issuers referring to the fundamentals of the Taxonomy requiring them to outline why their “green projects” fulfil the fundamentals and having this externally verified.

We also recommend to consider further flexibility for deviating from the technical criteria in the context of a holistic assessment at a project level where such deviation would not compromise the substantive alignment of the project with the fundamentals of the Taxonomy, especially while the Taxonomy is not yet fully developed. This can be illustrated using the example of green buildings where there might be a lot of projects which we consider green but which would not qualify under the EU GBS. With green buildings we think it is important to focus on all the different aspects (land use, building materials, resilience, energy use, water use, transportation links etc.), and not just a single dimension. The Taxonomy in its current state looks at energy efficiency under the aspect of climate change mitigation and adaptation for which the TSC have already been developed. Using well established building certifications and requiring high certification levels might therefore be better to evaluate a building holistically especially while the EU GBS is still being adopted. The GBP, for example, caters to that by providing two different categories which are i) energy efficiency, including in buildings (focus on mitigation, and ii) green buildings (holistic approach, taking not only energy efficiency but for example also water- and waste efficiency into account).

Q8: 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 - x

b. No

c. Do not know

Please specify the reasons for your answer

Q8 Response:
Although the guidance in the Taxonomy Final Report and the EU GBS user guide for alignment with the DNSH principle and / or minimum safeguards will be helpful we expect that time will be required for greater market understanding and best practice to emerge for issuers and verifiers for projects within the EU. We recommend that the future Platform engage in an ongoing dialogue with the market on this topic and consider additional guidance as appropriate like, for example, the ability to rely extensively on compliance with existing regulations is helpful and needs to be better understood by markets, although there remain challenges.

When it comes to the applicability of DNSH and minimum safeguards, we can see this posing a problem for issuers of green bonds financing SME and/or retail clients regarding, e.g. technical requirements for the building sector or general adaptation as well as with respect to data availability, IT systems etc. The need for an individual check of DNSH and minimum safeguards for smaller projects (threshold still tbd), even if minimum safeguards can be checked on company level, would bear high additional costs. Consequently, market conditions might become completely unattractive and therefore hinder further growth for green financings within the SME and retail area as well as further growth of the green bond market as a whole and specifically issues compliant with the EU GBS. We therefore propose that for smaller projects located in the EU that are (re)financed using green bonds, issuers should not be obliged to perform checks of DNSH and minimum safeguards requirements, given there are already stringent legal and regulatory requirements with respect to protection of the environment and employee interests in place in the EU. Additional line by line checks as currently required by the EU Taxonomy should only be mandatory where the project volume exceeds a certain threshold level.

We also see challenges for both non-EU issuers as well as EU issuers intending to finance projects outside of the EU. Work by the EU with its international partners on establishing greater clarity regarding "equivalence" with regards to the Taxonomy would be helpful, taking into account differing local baselines, environmental and social contexts and needs. Difficulties may arise for non-European issuers and projects if local environmental and social standards and/or regulations significantly diverge from those of the EU. For issuers in other developed markets, there may be sensitivity/reluctance in doing an actual comparison of company or national environmental and social rules with EU regulations through a verifier's opinion. This may be particularly problematic when comparing regulatory frameworks across jurisdictions. Additionally, in instances where assessing compliance with DNSH criteria requires significant judgment, there may be difficulties in making such representation or relying on the analysis of a verifier to do so.

For developed and emerging markets alike, not all third countries have signed up to the ILO Declaration on Fundamental Principles and Rights at Work, allow freedom of association or recognise collective bargaining. As a result, issuers and projects in these jurisdictions may not be able to comply with the social aspects of the Taxonomy that are integrated in the minimum safeguards. We therefore propose that it should be possible for issuers with projects in such countries to show alignment with relevant national legislation/regulation, and to assess under their DNSH process any relevant concerns that may need mitigating.

Q9: 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? If so, please identity the relevant issues or incentives.

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

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. Do not know

Please specify the reasons for your answer

<u>Q9 Response</u>:
We think further clarification on how you assess DNSH when it comes to R&D or how to impact report on R&D is needed.

Questions on grandfathering and new investments

Q10: 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 – x

c. Do not know

Please specify the reasons for your answer. If you are in favour of changes, please explain what changes should be made [BOX]

Q11: 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. - x

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. Do not know
Please specify the reasons for your answer

If you select b, what should the maximum amount of years for grandfathering?
a. 3 years

b. 5 years

c. 10 years

d. 20 years

e. Different approach all together, please specify reasons for your answer

Q11 Response:

We concur that green at issuance should be green for the entire term to maturity of the bond on the basis that the Taxonomy should prevent issuers from financing projects which lock in high carbon emissions in the long-term. However, we believe that bonds with very long maturities should be reviewed after 10 years especially when technical screening criteria have been updated within that period as in the case of transition activities that may possibly change every three years.

There are nonetheless practical challenges related to grandfathering for which additional guidance will need to be provided when finalising the EU GBS. Areas to be covered include:

- Green Bonds which fund a portfolio of green loans (rather than being linked directly to specific projects); and
- Tap issues

Grandfathering is only relevant when underlying projects no longer meet the Taxonomy requirements. Hence, there is a need to ensure that any new issuance or tap of a bond against a loan portfolio should not create a significant verification burden for the issuer in reassessing all projects in the portfolio for alignment with the Taxonomy at the time of new issuance, rather than at the time they were included in the portfolio. For tap transactions, the guidance may seek to cover the time elapsed from original issuance. i.e. whether it would be appropriate to tap the bond years after the original issue (e.g. 5+) if a significant portion of the loans are likely to be non-Taxonomy compliant by then.

Question on incentives

Q12: 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? Please use the scale from 1 (no additional costs) to 5 (very high extra cost) – multiple answers possible:

a. Verification
[1] [2] [**3**] [4] [5]

b. Reporting
[1] [2] [3] [**4**] [5]

c. More internal planning and preparation
[1] [2] [**3**] [4] [5]

d. Other

Please explain and specify the reasons for your answer. [BOX]
If possible, please 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.

Q12 Response:
Green bonds generate additional costs compared to vanilla bonds in areas such as external reviews, reporting and internal planning/preparation. Especially reporting is seen by most issuers as being very cumbersome with impact reporting being the most costly and time-consuming process. While there are a few large issuers, that seem to have made reporting more manageable through a big upfront investment in e.g. IT infrastructure and additional communication, for most issuers (including very large ones) this is not the case. However, issuers are also becoming increasingly aware that there are benefits of green bond issuance(s) especially high investor demand and diversification that can lead to greater transaction size, longer maturities and in some cases improved pricing, which may serve to mitigate the costs associated with issuance of a green bond.

Q13: In your view, how would the costs of an official standard as proposed by the TEG compare to existing market standards? Please rate on a scale of 1 to 5 (1 substantially smaller, 3 approximately the same, 5 substantially higher).

[1] [2] [3] [**4**] [5]
Please specify the reasons for your answer

<u>Q13 Response</u>:
There is a risk that the EU GBS will generate costs for verification and reporting that may be significantly higher than for GBP aligned green bonds, although the standardisation and clarity offered by the EU GBS could have an offsetting effect on cost. The cost increase is more driven by getting to grips with the reality of a precise Taxonomy, and especially given its focus on activities. Specifically, any potential increase in cost would likely result from the requirement for systematic verification of the Green Bond Framework and the final allocation report (although verification of a framework is already commonplace); in particular, the evaluations in relation to the Taxonomy are likely to be the key area of additional work, especially in the initial years, while the Taxonomy criteria are being understood. Thereafter, costs may reduce once a learning effect has been achieved. Additionally, we can see legal costs increasing, especially when it comes to the DNSH principle.

Q14: 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 by using the scale from 1 (not strong at all) to 5 (extremely strong) – multiple answers possible:

a. Public guarantee schemes provided at EU level, as e.g. InvestEU
[1] [2] [**3**] [4] [5]

b. Alleviations from prudential requirements
[1] [2] [**3**] [4] [5]

c. Other financial incentives or alternative incentives for investors
[1] [2] [**3**] [4] [5]

d. Other Incentives or alternative incentives for issuers?
[1] [2] [3] [**4**] [5]

e. None

Please specify the reasons for your answer, in particular if you have chosen “other incentives or alternative incentives”

Q14 Response:
When it comes to guarantees related to bonds (as opposed to loans), we see potential reliance on the guarantor rather than the issuer as potentially problematic. Guaranteeing loans generally comes with conditionality, which the guaranteeing of bonds necessarily cannot. The guarantor is therefore unable to do more than enhance the credit but not the essential greenness/sustainability/credibility of its allocation. Furthermore, the issue should be assessed on both the asset and the credibility of the issuer’s strategy and commitment, and not the guarantor’s (whereas from a credit perspective reliance might wholly be placed on the guarantor where there is a full and unconditional guarantee).

With regards to prudential treatment our response reflects the GBP being a global body with a global perspective rather than representing the EU financial eco system. Having established that, we support potential preferred prudential treatment of green bonds over other bonds if and when there is clear evidence from a number of sources that the contribution to financial stability of green assets is such that the risk profile changes. We also support preferred treatment in monetary policy such as asset purchase programmes for similar reasons. We would otherwise recommend that the likely higher costs of EU GBS aligned bonds be addressed by a temporary public subsidy programme, and public support for market development and capacity building during ramp up – both in the EU and to promote international coherence. This would allow for best practices to emerge and for competition to develop and contain costs.

Corporate issuers could be incentivised to issue more EU Green Bonds if they were able to use accelerated depreciation for their green projects financed by EU Green Bonds. Demand might increase by preferential tax treatment for investors.

Other questions related to the EU GBS

Q15: Do you foresee any issues for public sector issuers in following the Standard as proposed by the TEG?

a. Yes - x

b. No

c. Do not know

Please specify the reasons for your answer.

Q15 Response:
There may be specific challenges for sovereign EU GBS issuers. These could arise for example from difficulties in assessing the Taxonomy alignment of environmental policy related public expenditures or from the requirements to make representations on DNSH. For public infrastructure financing public sector issuers should be on equal footing with other issuers.

Q16: 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 - x

b. No

c. Do not know

Please specify the reasons for your answer. If possible, please provide estimates as to additional funds raised or current preferential funding conditions.

Q16 Response:
There is little doubt that the growth of the green bond market has increased the level of dedicated funding available for the (re)financing of green projects and assets. There is also evidence of improved cost of financing for some issuers.

Q17: To what extent do you agree with the following statements? Please use the scale from 1 (strongly disagreeing) to 5 (strongly agreeing) – multiple answers possible:

a. Social bonds are an important instrument for financial markets to achieve social objectives.
[1] [2] [3] [**4**] [5]

b. 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.
[1] [2] [3] [**4**] [5]

c. 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.
[1] [**2**] [3] [4] [5]

d. Social bonds in general are mostly a marketing tool with limited impact on social objectives.
[**1**] [2] [3] [4] [5]

e. Social bonds in general require greater transparency and market integrity if the market is to grow.
[1] [**2**] [3] [4] [5]

Q17 Response:
The social bond market is guided by a de facto global standard provided by the Social Bond Principles (SBP) supported by ICMA. Our responses above are predicated on the assumption that a social bond is one that rigorously aligns with the SBP (in 2020 there were several unlabelled and self-labelled pandemic response bonds that did not align with the SBP).

The SBP was recently updated in June 2020 including expanded social project categories, additional target populations, a definition of what constitutes a "social issue", and also incorporates recent guidance for social bonds addressing the COVID-19 crisis. Nonetheless, it would be beneficial to enhance guidance on a social taxonomy. It should be noted that Sustainability Bonds, that align with both with the GBP and SBP, are also extensively used to serve social objectives

We suggest that the Commission engage in stakeholder dialogue to assess any need to provide added social bond guidance. Given our experience based on the SBP we would welcome a dialogue on social project categories and target populations. We do believe that in the social space input regarding "taxonomy" is more challenging, and an initiative comparable to what has been done for environmental sustainability may prove difficult, but it could be additional for the market to have targeted complementary official EU guidelines, for example on social project categories and target populations with which issuers could choose to align.

We generally recommend that the EU should only seek to develop sustainable product standards in the financial markets where there is either (i) an overarching policy-based objective or supporting action that requires in counterparty an official standard and (ii) no market-supported standard and documented evidence of market dysfunction.

Q18: 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. - x

Please specify the reasons for your answer. [BOX]

Q18 Response:
We propose a measured, step by step approach guided by further stakeholder dialogue. In any case, before even thinking of developing any potential EU Social Bonds, the EU should focus on finalising the "Green Taxonomy" as well as establishing a "Social Taxonomy".

Q19: In your view, to what extent would financial incentives for issuing a social bond help increase the issuance of such bonds? Please use the scale from 1 (very strong increase) to 5 (no increase at all).
[1] [2] [**3**] [4] [5]

Please explain what kind of financial incentives would be needed, if any.

Q19 Response:
At this stage, we do not see the need for financial incentives from the official sector to support the issuance of social bonds. Nonetheless, the official sector can add value a) by setting an example (issue Social / Sustainability Bonds themselves) and align them with the Social Bond Principles (SBP) and Sustainability Bond Guidelines (SBG), and b) supporting market-driven or official initiatives to enhance the market / framework in the meantime.