

## **Comment**

**of the German Insurance Association (GDV)**

**ID-number 6437280268-55**

**on the Proposal for a Regulation on European green bonds**

**Gesamtverband der Deutschen  
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## **Executive summary**

- GDV welcomes the proposal for an EU Green Bond Standard. Insurers as Europe's largest institutional investors invest extensively in bonds and therefore have a great interest in measures to stimulate the development of the green bond market as a key means of financing the sustainability transition. A credible and feasible standard will give issuers legal certainty when issuing green bonds and is a prerequisite for the development of a deep and liquid green bonds market in the European Union.
- With respect to the proposal GDV specifically welcomes the basing on market standards, issuer neutrality, the design as a voluntary standard and the inclusion of transition financing.
- However, to become a market accepted standard, GDV believes that the standard should be improved with regards to grandfathering and the exclusive use of proceeds.

## 1. Introduction

GDV welcomes the proposal for an EU Green Bond Standard. Insurers as Europe's largest institutional investors invest extensively in bonds and therefore have a great interest in measures to stimulate the development of the green bond market as a key means of financing the sustainability transition. Furthermore, a credible and feasible standard will give issuers as well as investors legal certainty when issuing / investing in green bonds and this will broaden the investable universe of green assets. This is in particular important since still only about 4 percent of corporate bond issuances are green bonds. GDV believes a credible and feasible standard is a prerequisite for the development of a deep and liquid green bonds market in the European Union.

### 1.1. Positive Details of the Proposal

GDV specifically welcomes the following details of the proposal:

- **Based on market standards**

The standard creates a level playing field for European investors and with its linkage to the Taxonomy Regulation it fits into the European Sustainability Regulation. As insurers' investments are global GDV encourages the European Commission to collaborate internationally with other jurisdictions to promote the use of the standard also by non-European issuers and on a global level.

- **Issuer neutrality**

We welcome that the proposal is issuer neutral. It is particularly important that the standard is also open to sovereigns, as sovereigns account for a significant proportion of the insurers' assets. We view issuer neutrality as also very important since currently there are no widely accepted standards for sovereign issuance and terms and conditions of sovereign green bonds are differing to a large degree.

- **Voluntary Standard**

Bearing in mind that insurers are global investors and that the green bond market is an international market, it is important that a voluntary standard does not prevent or hinder the use of other widely accepted sustainability bond standards.

- **Inclusion of transition financing**

GDV welcomes the objectives of the European Commission to make the European economy more sustainable and acknowledges that the financial industry has an important role to play. Transition financing is key in achieving the goals. Therefore, GDV welcomes the inclusion of transition financing in the proposal. The inclusion of transition financing in the EU Green Bonds standard will enable issuers to use proceeds to finance transition activities.

## **1.2. Concerns**

Although, GDV generally welcomes the proposal some details of the proposal are raising our concerns.

- **Partial Grandfathering**

GDV is of the opinion that grandfathering is key for a successful standard, i.e. a once issued green bond should be green until maturity, even if the Taxonomy Criteria change after issuance. Although the Commission Staff Impact Assessment states, that the option of a loss of green status before the bond matures was discarded at an early stage, we do not see this adequately reflected in the wording of the proposal. In the case of a change of the Taxonomy Criteria after issuance article 7 obliges the issuer to adapt the use of proceeds to the amended Taxonomy Criteria within 5 years after their entry into application. It is unclear what happens, if the issuer of the green bond cannot adapt the use of proceeds as demanded. In case that a financial product is linked to a certain green bond asset ratio the loss of the green bond status due to a change in the Taxonomy could force investors to sell these bonds and buy others that comply with the new standards. It is obvious that this would in many cases lead to financial losses for investors and customers alike. We are therefore concerned that the lack of reliable grandfathering rules will have negative effects on the sale of green financial products and the development of the EU green bonds market.

We also fear that the uncertainty about the further development of the taxonomy criteria will discourage many issuers from issuing green bonds according to the proposal. In our opinion, the goal of financing transition would be thwarted. Therefore, we strongly recommend removing article 7 para. 1 subpara. 2 and article 7 para. 2) subpara. 3.

- **Exclusive Use of proceeds**

The proposal states, that the proceeds of European green bonds shall be exclusively and fully allocated, without deducting costs, to activities already aligned with taxonomy requirements or activities, that will meet the taxonomy requirements within a defined time-period as set out in a taxonomy-alignment plan. GDV is of the opinion, that more flexibility is needed, especially for medium-sized companies, so that they have more opportunities to issue green bonds for transition financing. This is even more true in the current limited state of development of the taxonomy. The current proposal discriminates small to medium sized companies since they often only issue one bond to finance all company activities and operations. This is different to large companies that have the option to issue a green bond only for a certain project or business line. Therefore, for a transitional period until the taxonomy is sufficiently stable, a lower percentage requirement should be considered for alignment of use of proceeds (eg 80 %) that could become more stringent over time, provided that the rest of the proceeds finances low impact or neutral activities.

Berlin, den 24.09.2021