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Sustainable Finance

Commission puts forward new strategy to make the EU's financial system more sustainable and proposes new European Green Bond Standard

Introduction

This MFSA circular intends to inform Financial Market Participants and Financial Advisors that on 6 July 2021, the European Commission adopted a number of measures to increase its level of ambition on sustainable finance.

1. The new [Sustainable Finance Strategy](#) sets out several initiatives to tackle climate change, and other environmental challenges, while increasing investment – and the inclusiveness of small and medium-sized enterprises (SMEs) – in the EU's transition towards a sustainable economy.
2. The [European Green Bond Standard](#) proposal will create a high-quality voluntary standard for bonds financing sustainable investment.
3. The Commission adopted a Delegated Act on the information to be disclosed by financial and non-financial companies about how sustainable their activities are, based on Article 8 of the [EU Taxonomy](#).

Background

1. Sustainable Finance Strategy

The European Commission adopted a new Sustainable Finance Strategy, which sets out several initiatives to tackle climate change and other environmental challenges while increasing investment in the EU's transition towards a sustainable economy. More precisely, the Strategy aims to:

- i. extend the existing sustainable finance toolbox to facilitate access to transition finance,
- ii. improve the inclusiveness of small and medium-sized enterprises (SMEs) and consumers, by giving them the right tools and incentives to access transition finance,
- iii. enhance the resilience of the economic and financial system to sustainability risks,
- iv. increase the contribution of the financial sector to sustainability,
- v. ensure the integrity of the EU financial system and monitor its orderly transition to sustainability and (vi) develop international sustainable finance initiatives and standards.

The Commission says that it will report on the Strategy's implementation by the end of 2023 and will actively support Member States in their efforts on sustainable finance.

2. European Green Bond Standard

The Commission also published a legislative proposal for a European Green Bond Standard (EUGBS). The EUGBS aims to set the standard for how companies and public authorities can use green bonds

to raise funds on capital markets, to allow for investments while meeting sustainability requirements and protecting investors from greenwashing. The new EUGBS will be open to any issuer of green bonds, including issuers located outside of the EU under four requirements:

- i. the funds raised by the bond should be fully allocated to projects aligned with the EU Taxonomy;
- ii. there must be full transparency on how bond proceeds are allocated through detailed reporting requirements;
- iii. all EU green bonds must be checked by an external reviewer to ensure compliance with the Regulation and that funded projects are aligned with the Taxonomy;
- iv. external reviewers providing services to issuers of EU green bonds must be registered with and supervised by the European Securities and Markets Authority (ESMA).

The Commission proposal will now be submitted to the European Parliament and Council as part of the co-legislative procedure.

3. Delegated Act supplementing Article 8 of the Taxonomy Regulation

The European Commission also adopted the Delegated Act supplementing Article 8 of the Taxonomy Regulation, which requires financial and non-financial companies to provide information to investors about the environmental performance of their assets and economic activities.

According to the delegated act, non-financial companies will have to disclose the share of their turnover, capital and operational expenditure associated with environmentally sustainable economic activities as defined in the Taxonomy Regulation and the EU Taxonomy [Climate Delegated act](#), formally adopted on 4 June 2021, as well as any future delegated acts on other environmental objectives. Financial institutions, mainly large banks, asset managers, investment firms and insurance/reinsurance companies, will have to disclose the share of environmentally sustainable economic activities in the total assets they finance or invest in.

The Delegated Act will be transmitted for scrutiny to the European Parliament and the Council for a period of four months, extendable once by two months.

Conclusion

The MFSA will be assessing all documents and proposal published. It will also be actively participating in discussions at EU level which are expected to start in the incoming weeks and issuing other informative circulars or request information as the necessary and warranted to keep all stakeholders up to date. Notwithstanding, market participants should not hesitate to send any comments or questions they may have.