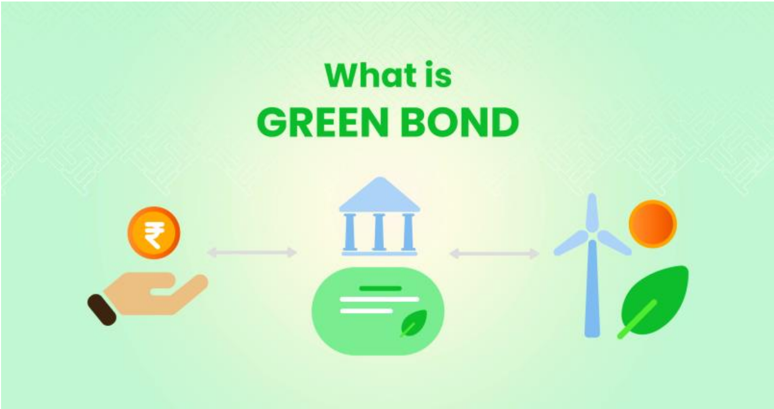
EU Approves World's First Green Bond Standards To Avoid Greenwashing

Why In News

- European Union lawmakers approved new standards for companies issuing "green" bonds to help investors pick sustainable companies and avoid greenwashing or misleading climate-friendly claims.
- The European Parliament voted in favour of the new voluntary standard for the use of a "European Green Bond" label, calling it the first of its kind in the world.

Green Bonds

- A Green bond (also known as climate bond) is **a fixed-income financial instruments** (bond) which is used to fund projects that have positive environmental and/or climate benefits.
- A green bond is a debt security issued by an organization for the purpose of financing or refinancing projects that contribute positively to the environment and/or climate. A green bond is alternatively known as a climate bond.



Greenwashing

- Greenwashing is the act of **making false or misleading statements** about the environmental benefits of a product or practice.
- Greenwashing happens when organizations do the following: **Make broad sustainability claims without evidence**. Overstate their positive environmental effects in marketing materials. Advertise products as eco-friendly, but source raw materials from unsustainable suppliers.
- Another cynical greenwashing move is to slap a green label on something to make it appear more sustainable or healthy, as Coca-Cola did with Coca-Cola Life — that with 6.6% sugar was far from a healthy drink. You'd probably get less Life if you drank a lot of it

Why It Is Needed

- Europe is the world's biggest issuer of green bonds, accounting for more than half of global volume in 2021, though issuance is still only **3% to 3.5%** of the overall bond market.
- The standards will enable investors to direct their money more confidently towards more sustainable technologies and businesses.
- It will also give the company issuing the bond more certainty that their bond will be suitable to investors who want to add green bonds to their portfolio
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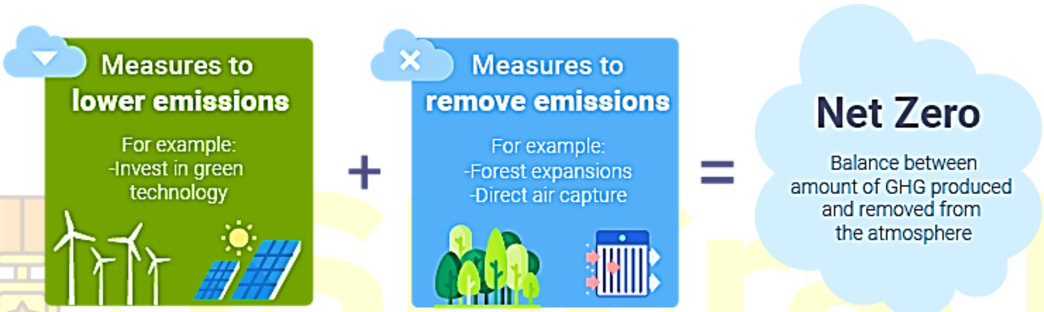
Steps Taken

- The regulation, adopted by 418 votes in favour, 79 against and 72 abstentions, lays down uniform standards for issuers who wish to use the designation **'European green bond' or 'EuGB' for the marketing of their bond**.
- The regulation establishes a **registration system and supervisory framework** for external reviewers of European green bonds – the independent entities responsible for assessing whether standards are being adhered to.
- All companies choosing to adopt the standards and therefore also the EuGB label when marketing a green bond will be required to **disclose considerable information** about how the bond's proceeds will be used.

- They would also be obliged to show how these investments feed into the transition plans of the company as a whole.
- It also stipulates that any actual **or potential conflicts of interest external** reviewers may face are properly identified, eliminated or managed, and disclosed in a transparent manner.
- This will increase interest for this kind of financial product and support the EU's transition to climate neutrality.
- **At least 85% of funds raised would have to be allocated** to activities in line with the EU's "taxonomy" of sustainable activities.
- Firms would also have to show how these investments feed into their plans to transition to a net zero carbon emissions economy.



Conclusion

- By Ensuring Rigorous Oversight, The EU Aims To Bolster Investor Confidence In Green Bonds Thereby Supporting The Region's Transition To Climate Neutrality.