

Green Shoots? An Assessment of the First Issuances Under the EU Green Bonds Regulation

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The European Union's Green Bonds Regulation ((EU) 2023/2631) (the "Regulation"), a voluntary standard for bonds that wish to use the designation "European Green Bond" or "EuGB", has been in place since December 2024.¹ Since then, 11 offerings have been conducted under this regime, ranging from €20 million to €3 billion, by regional authorities, a sovereign nation and companies in the finance, real estate and utilities sectors, most of which had previously issued traditional ESG bonds. While use of the EuGB regime has been limited when compared to traditional ESG- or sustainability-linked financings, the initial offerings offer valuable insights as to how potential issuers may consider approaches and use cases, as discussed further below.

Background

The Regulation sets out eligibility criteria for investing bond proceeds in environmentally sustainable projects, including to finance environmentally sustainable technologies and energy and resource efficiency, as well as environmentally sustainable transport infrastructure and research infrastructure. Financial issuers may "on-lend" bond proceeds to finance other companies' projects. Issuers are required to publish a prospectus for the offering of EuGB bonds under the EU Prospectus Regulation, requiring review and approval by the state competent authority. The Regulation also sets out requirements for alignment with the EU Taxonomy Regulation (the "Taxonomy"), eligibility criteria for investing the proceeds of bonds in environmentally sustainable projects, standards for pre-issuance and post-issuance sustainability reporting, and a new framework for external review of those reports and supervision of the reviewers.

¹ For a more detailed overview, please see our [Debevoise in Depth article](#), published on 20 February 2024.

Allocation of Proceeds

The Regulation requires issuers to allocate proceeds of EuGB bonds through either the gradual approach or the portfolio approach, which must be disclosed in the pre-issuance EuGB Factsheet (the “Factsheet”).

The gradual approach requires proceeds to be allocated in full to one or more of the following categories of asset: (i) fixed assets (other than financial assets) which relate to Taxonomy-aligned activities; (ii) capital expenditures and operating expenditures that meet the conditions in the Taxonomy-Delegated Regulation; (iv) financial assets that are allocated by the borrower or investee company to Taxonomy-aligned activities; and (v) financing assets and expenditure of households. If the capital or operating expenditures are not currently aligned with the Taxonomy, the issuer must also provide a CapEx plan specifying a deadline by when the expenditures will be fully aligned, a summary of which must be provided in the prospectus.

Of the EuGB offerings to date, the vast majority of issuers (and all issuers in the utilities sector) adopted the gradual approach. Of such offerings, most issuers provided a general statement that proceeds are allocated to both capital expenditures and operational expenditures. Two gradual approach offerings, involving issuers in the water services and energy generation sectors, limited allocation of proceeds to only capital expenditures, with one citing plans to replace their outdated water supply and wastewater system over three five-year periods. None of the gradual approach issuers published a CapEx plan, as they indicated that any proceeds allocated towards capital or operating expenditures were fully aligned with the Taxonomy at the time of issuance.

Under the gradual approach, issuers are also required to specify a timeline for the allocation of proceeds. More than half of the offerings utilising the gradual approach indicated that proceeds would be allocated within 24 months or less, while two offerings indicated a longer period of four to five years.

As an alternative to the gradual approach, the portfolio approach requires proceeds to be allocated to a portfolio of fixed or financial assets on the issuer’s balance sheet, provided the value of such assets exceeds the value of outstanding EuGB bonds, and alignment is checked against the Taxonomy. The portfolio approach is more flexible, as proceeds can be allocated to an entire portfolio of assets, rather than specific projects or assets. However, under the portfolio approach, proceeds cannot be allocated to CapEx or OpEx. The portfolio approach has been adopted in only two EuGB offerings to date. In both instances, the issuers stated that the portfolio approach allows them to streamline reporting across multiple bonds and other Taxonomy-aligned products, as well as provide flexibility to allocate proceeds across multiple energy-efficient assets and re-

balance their asset pool on an ongoing basis rather than tying bond proceeds to a specific project.

Use of Proceeds

The proceeds from the EuGB offerings to date have been directed to a range of Taxonomy-aligned activities, all in connection with the transition to net zero. All offerings to date have indicated that 100% of proceeds align with Taxonomy activities. In slightly less than half of offerings, at least a portion of proceeds were allocated to activities that directly make a substantial contribution to the European Union's environmental objectives, such as the development of sustainable transportation and renewable energy development. A majority of offerings have allocated proceeds to "enabling" economic activities (a Taxonomy sub-category which indirectly contributes to climate change mitigation through enabling other activities, such as electricity transmission), and one offering allocated a portion of proceeds to "transitional" economic activity (a Taxonomy sub-category for energy intensive manufacturing activities for which low-carbon alternatives are not yet available), such as the manufacturing of aluminium.

So far, no EuGB offerings have utilised the flexibility pocket that allows issuers to fund activities that do not fully align with the Taxonomy (provided they meet "Do No Significant Harm" criteria) with up to 15% of the use of proceeds.

Environmental Disclosures

Under the Regulation, at the point of issue, as well as giving details on the intended allocation of the bond proceeds, EuGB issuers must disclose how the proceeds will contribute to their environmental strategy and rationale; provide a description of how the bond proceeds relate to the Taxonomy information that they report under the Corporate Sustainability Reporting Directive ("CSRD"), if applicable; provide any climate-transition plans previously published under the CSRD; and disclose, where possible, the estimated environmental impact of the proceeds of the bonds or a justification if an estimate is not available.

The Regulation does not specify the level of detail that is required for each of these disclosure requirements. Based on a review of the EuGB offerings to date, while some issuers provided a brief summary of their environmental strategy, the majority of issuers simply referenced existing materials that provide a detailed description of their strategies, with several incorporating by reference various sustainability framework

reports into the Factsheet. For example, more than half of issuers made reference in their Factsheet to existing transition plans, including several issuers who do not fall under the CSRD regime but voluntarily choose to publish transition plans.

In addition, the majority of issuers did not describe the anticipated positive and negative environmental impacts of their EuGB bonds pre-issuance but instead committed to disclose actual results in the environmental impact report which issuers publish at least once during the lifetime of the bonds. Only one issuer, utilising the portfolio approach, disclosed estimates of GHG emissions in their Factsheet based on their 2024 real estate portfolio, while another issuer made reference to an existing impact report published in connection with a previous ESG bond issuance. Issuers should consider whether there is value in providing estimates of the environmental impact of the offering pre-issuance given actual data can be provided post-issuance in their annual impact report or otherwise.

Issuance Costs

The Regulation requires issuers to disclose the amount of proceeds to be directed towards issuance costs. The Regulation permits the deduction of total issuance costs, including costs “incurred for professional advice, legal services, rating, external review, underwriting and placement”.² In most offerings to date, the Factsheet stated that issuance costs would not be deducted from the bond proceeds. Most of these issuers later changed position and instead indicated that issuance costs would be deducted from bond proceeds.

Noteholder Remedies

The Regulation does not require that the terms of EuGB bonds include covenants for the benefit of noteholders that the allocation of proceeds will be in the manner disclosed in the Prospectus and Factsheet or that a failure to allocate proceeds or otherwise meet any sustainability goals will result in an event of default by the issuer, which matches the approach used in traditional ESG financing instruments. EuGB bonds also have no requirement to impose financial penalties for failure to maintain EuGB compliance, and EuGB issuers have not included such penalties to date. This contrasts with sustainability-linked bonds that typically provide a financial penalty such that failure to meet specified ESG or sustainability benchmarks results in an increase in the applicable interest rate. As a result, if an issuer fails to maintain EuGB compliance,

² (EU) 2023/2631 Article 2 (14).

such as by misallocating proceeds or breaching Taxonomy requirements, the note terms do not generally allow noteholders to demand early repayment, cancellation, acceleration or any other financial remedy on the basis of non-compliance. Instead, enforcement is handled by the EU state national competent authorities, which may impose administrative sanctions or fines or require the issuer to cease using the EuGB label.

Of the EuGB offerings to date, none have indicated that non-compliance with the Regulation or failure to allocate proceeds as intended is an event of default or triggers any other penalty. However, all of the offerings stated the risk that the value and liquidity of the bonds would be affected in such a scenario. Furthermore, under the mainstream gradual approach, if issuers sell or dispose of assets acquired with the bond proceeds, or, under the portfolio approach, if the value of the portfolio allocated by issuers were to decrease below the value of the bonds issued, issuers would theoretically be required to reallocate proceeds to other eligible assets or replenish the portfolio with new eligible assets to avoid repurchasing or redeeming the outstanding bonds and to maintain compliance with the Regulation.

Optional Disclosure Regime

The Regulation also includes an option for bonds that are marketed with a broad commitment to invest in environmentally sustainable activities but are not aligned with the Taxonomy to voluntarily opt in to a number of the Regulation's disclosure requirements (the "Optional Disclosure Regime"). To date, no EU issuers have utilised the Optional Disclosure Regime. The European Commission (the "Commission") published non-binding disclosure guidelines and templates for the Optional Disclosure Regime in April 2025 for scrutiny, with official publication of the guidelines expected later this year.³

Outlook

The Commission has announced further plans to simplify the Taxonomy, which may encourage further issuances and possibly incentivise EuGB issuers from outside Europe. The UK government recently abandoned efforts to develop a UK taxonomy due to concerns about the overly complex nature of the Taxonomy's technical screening

³ European Commission, "Communication from the Commission—establishing guidelines for pre-issuance disclosure templates for issuers of bonds marketed as environmentally sustainable or of sustainability-linked bond" (Brussels 16 April 2025) C(2025) 4 final.

criteria. Concerns about the practical challenges of complying with the Taxonomy may explain why no UK issuer has to date made an EuGB issuance, despite UK ESG bonds typically targeting European markets. European states have also been slow to issue EuGBs—Denmark became the first and only sovereign to issue EuGBs this year. France and Germany, the two largest sovereign ESG bond issuers in Europe, have stated that they have no plans to issue EuGBs because of the “significant restrictions” placed by the Regulation. This matches the general sentiment among other European sovereigns who feel taxonomy alignment “enhances transparency” but is “quite complex”.⁴ It is possible that the majority of EuGB issuers will continue to be made up of European supranationals, regional authorities and utility companies, but it may be a matter of time before smaller, less-experienced issuers enter the market once they familiarise themselves with the Regulation. Although EuGB issuances represent just 1% of all ESG bonds issued in Europe this year, the relatively large size of the offerings and the involvement of several well-recognised issuers indicates that there could be potential for more wide-spread adoption. Time will also tell if issuers opt to issue ESG bonds under the Optional Disclosure Regime once guidelines are officially published later this year.

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⁴ Julian Lewis, “Germany Shuns ‘Restrictive’ EU Green Bond Standard” (United Kingdom, 13 September 2025) International Financing Review 6.

Please do not hesitate to contact us with any questions.



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