



EU Sustainability: State of Play — Sustainable Finance

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Issuers and borrowers should consider implementation options and monitor market developments as the EU's sustainable finance architecture continues to mature.

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The EU Sustainable Finance Landscape

The EU's sustainable finance framework is a comprehensive set of policies and regulations designed to align financial flows with the EU's climate and sustainability objectives. Central to this framework is the European Green Deal (Green Deal), which sets the goal of EU climate neutrality by 2050, as anchored in the EU Climate Law. The "Fit for 55" package advances these efforts by targeting a 55% reduction in greenhouse gas emissions by 2030. In anticipation of the Green Deal, in March 2018, the European Commission (Commission) announced its Sustainable Finance Action Plan, a renewed sustainable finance strategy for the implementation of actions to foster financing of sustainable growth.

As part of the key actions under the Sustainable Finance Action Plan, the Commission committed to (i) establishing a clear and detailed EU taxonomy, a classification system for sustainable activities, and (ii) creating an EU Green Bond Standard (EU GBS) and labels for green financial products. These actions underpinned the sustainable finance framework designed to reorient capital flows towards a more sustainable, low-carbon economy within the

EU and to incorporate ESG factors into investment decision-making, resulting in the adoption of the EU Taxonomy Regulation and EU GBS by the European Parliament and the Council. While ongoing inter-institutional “Omnibus” negotiations on certain other sustainability frameworks flowing from the Sustainable Finance Action Plan are reshaping and pushing back the implementation of ESG-related obligations under the EU Corporate Sustainability Reporting Directive and the EU Corporate Sustainability Due Diligence Directive (see this Latham article), the sustainable finance landscape remains on firmer footing.

Beyond the EU’s institutional triangle, other European institutions have also advanced the EU’s sustainable finance agenda. The European Central Bank (ECB) has integrated climate change considerations into its monetary policy framework and supervisory regime, emphasizing the importance of sustainable finance and green investments, thereby aiming to enhance the resilience of the financial system to climate-related risks and supporting the transition to a low-carbon economy. In a similar vein, the European Investment Bank (EIB) announced in 2020 its Climate Bank Roadmap 2021-2025 as a strategy to support the Green Deal by channeling finance towards climate and environmental goals, and committed to support €1 trillion of green investment by 2030 and align its new operations with the Paris Agreement.

This article first gives an overview of certain key concepts relevant to European sustainable finance. It then examines the EU Taxonomy and the EU GBS as foundational EU sustainable regulatory frameworks and discusses certain other sustainable finance standards commonly used by European issuers. Finally, the article provides insights into the EU’s approach to addressing certain challenges in the sustainable finance space, other notable EU sustainable finance developments, and an outlook for the future.

Types of Sustainable Finance Instruments and Transition Financing

Use of Proceeds Instruments

Use of proceeds instruments are sustainable finance instruments designed to raise capital for projects with a positive environmental or social impact, and the net proceeds are used to finance or refinance eligible projects or assets.

Green, social, or sustainability bonds and loans focus on the use of proceeds, not necessarily on the company’s green credentials or corporate-level targets. A company must: (i) use the net proceeds of

a green bond for eligible green projects (i.e., green bonds constrain the use of proceeds), and, therefore, (ii) have sufficient green expenditure within a relevant time period.¹

However, in order to label an instrument a green or social bond, it must comply with standards set on the international or regional level. In Europe, the most commonly used standards for use of proceeds bonds are the Green Bond Principles 2025² (GBPs), the Social Bond Principles 2025,³ the Sustainability Bond Guidelines 2021,⁴ each promulgated by the International Capital Markets Association (ICMA), the Climate Bonds Standard by the Climate Bonds Initiative, as well as the EU GBS, the EU's flagship standards for green bonds. The most commonly used standards for sustainability loans are the Green Loan Principles⁵ (GLPs) and the Social Loan Principles,⁶ each promulgated by the Loan Market Association (LMA), the Asia Pacific Loan Market Association, and the Loans Syndications and Trading Association (LSTA). The ICMA and LMA principles provide guidelines and recommendations for issuing, managing, and reporting on these sustainable finance instruments.

Target-Linked Instruments

Target-linked sustainable finance instruments are directly linked to specific sustainability targets, such as reducing greenhouse gas emissions or increasing access to clean water.

In Europe, sustainability-linked bonds (SLBs) and sustainability-linked loans (SLLs) are target-linked instruments structured in accordance with the ICMA Sustainability-Linked Bond Principles (SLBPs) or the LMA Sustainability-Linked Loan Principles (SLLPs). SLBs and SLLs focus on the key performance indicators (KPIs) and the sustainability performance targets (SPTs) set by the company, respectively, rather than the use of proceeds or the green credentials of the issuer or borrower. With respect to SLLs, companies do not need to have any green expenditure and can generally use the proceeds for general corporate purposes so long as they are meeting their KPIs and SPTs. Consequently, SLBs and SLLs may be more suitable than use of proceeds instruments for companies that seek to finance a transition strategy but do not have anticipated pure green expenditures sufficient to justify a public green bond or green loan.

Transition Financing

Transition financing is a specific financing method designed to support companies and sectors that are committed to reducing their environmental impact and aligning with climate goals. "Transition

bonds” are a key instrument in this space, enabling issuers in carbon-intensive or hard-to-abate sectors to raise capital for activities that facilitate their shift towards lower emissions and more sustainable operations. These bonds can be structured either as use of proceeds instruments or target-based instruments, where the financial terms are linked to the issuer’s achievement of its transition pathway. The flexibility of these transition bonds can allow a broader range of issuers to access sustainable finance markets.

Foundational EU Regulatory Frameworks for Sustainable Finance

On 18 June 2020, the EU adopted the Regulation on the Establishment of a Framework to Facilitate Sustainable Investment (EU Taxonomy). The EU Taxonomy is a classification system for identifying which economic activities are environmentally sustainable. To be classified as sustainable under the EU Taxonomy, an activity must meet four key requirements: (i) make a substantial contribution to at least one of six environmental objectives — climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, or protection and restoration of biodiversity and ecosystems; (ii) do no significant harm (DNSH) to any of the other objectives; (iii) comply with minimum social safeguards; and (iv) satisfy detailed technical screening criteria (TSC) set out in various delegated acts.

The TSC are established for each of the six environmental objectives. The criteria are both general and sector-specific, often including quantitative thresholds (such as emissions limits) and qualitative requirements (such as adherence to best practices or regulatory standards). The TSC are regularly reviewed and updated to reflect technological advances and evolving policy objectives. This approach seeks to ensure that only activities with robust, science-based environmental performance are recognized and to provide clarity for investors and companies that wish to support the EU’s transition to a more sustainable economy.

On 25 February 2025, the Commission launched its first Omnibus package on sustainability (the Omnibus). The Omnibus contains a set of proposals designed to streamline certain sustainability frameworks, including proposals to amend the Taxonomy Disclosures Delegated Act and the Taxonomy Climate and Environmental Delegated Act. Notable updates from the Commission’s proposal include exempting activities that account

for less than 10% of turnover from detailed reporting requirements, streamlining reporting templates, and simplifying the DNSH criteria to enhance usability across sectors.

These changes were adopted by the Commission on 4 July 2025 and are currently under scrutiny by the Parliament and the Council. For more information on the Omnibus with regard to the EU Taxonomy, see this Latham article.

The EU Green Bond Standard: The EU's "Gold Standard" for Green Bonds

Background to the EU Green Bond Standard

The EU GBS has been promoted by the EU as a new "gold standard" for green bonds, underscoring the EU's leadership ambition in the area of sustainable finance. It has been much anticipated in Europe, having been announced in concept by the Commission in its 2018 Sustainable Finance Action Plan and again on 14 January 2020 as part of the Green Deal Investment Plan.⁷ The Commission then tabled a proposed standard on 6 July 2021,⁸ setting out requirements for environmentally sustainable bonds marketed in the EU's as "European green bonds" (EuGB). On 22 November 2023, the EU GBS became embedded into EU law pursuant to the adoption by the Parliament and the Council of the Regulation on European Green Bonds and Optional disclosures for Bonds Marketed as Environmentally Sustainable and for Sustainability-linked Bonds.

Objectives and Requirements

In essence, the EU GBS requires that all bond net proceeds are allocated in alignment with the EU Taxonomy and that EuGBs are subject to supervision by competent authorities under the EU prospectus regulation (the EU Prospectus Regulation).⁹

- **Scope/Prospectus:**¹⁰ Issuers that wish to issue an EuGB (except for (quasi-)sovereigns) will be required to publish a prospectus in compliance with the EU Prospectus Regulation. Under the EU GBS, the prospectus must state that (i) the bonds are designated as "European Green bonds" or "EuGB" throughout the prospectus, and (ii) the EuGBs are issued in accordance with the EU GBS.
- **Use of Proceeds:** The net proceeds of an EuGB must be allocated in accordance with the EU Taxonomy, i.e., the net proceeds must be applied towards environmentally sustainable activities that comply with the EU Taxonomy, which can be: (i) fixed assets that are not financial assets, capital expenditures (Capex), operating expenditures (Opex),

- (ii) financial assets created no later than five years after the EuGB issuance, and/or (iii) assets and expenditures of households that will meet the Taxonomy requirements before the EuGB reaches maturity. In the case of Capex and/or Opex use of proceeds, the issuer is additionally required to publish a Capex plan (as defined below) on its website.¹¹
- **“Capex Plan”:** If the proceeds are to be allocated towards Capex and Opex that will meet the Taxonomy requirements, issuers must publish a “Capex plan” in accordance with Annex I to Commission Delegated Regulation (EU) 2021/21781.¹²
 - **Factsheet:**¹³ Prior to issuing an EuGB, issuers must publish a “European green bond factsheet” (the Factsheet), subject to pre-issuance review by an external reviewer. Key items include:
 - How the EuGB is expected to contribute to the broader environmental strategy of the issuer, including the environmental objectives under the Taxonomy.
 - If the issuer is subject to Art 8 of the Taxonomy, a description of how and to what extent bond proceeds are expected to contribute to the issuer’s Taxonomy-aligned assets, turnover, Capex, and Opex.
 - To the extent available at the time of issuance, and in case the issuer publishes a transition plan,¹⁴ how the proceeds are intended to contribute to such transition plan and a link to where such plan is published.
 - The intended allocation of bond proceeds to EU taxonomy-aligned economic activities.
 - Information on reporting in accordance with the EU GBS.
 - **Allocation and Impact Reports:** Issuers must publish annual allocation reports until full allocation, and must obtain a post-issuance review after full allocation that will require close interaction with the external reviewer. After full allocation and at least once during the lifetime of the bond, issuers must publish an impact report.¹⁵ Templates for the impact report as well as the annual allocation report will be set out in annexes to the EU GBS.
 - **Optional Disclosure Requirements for Other Green Bonds and SLBs:** The EU GBS will provide for voluntary templates for pre- and post-issuance disclosure for all bonds “marketed as environmentally sustainable” and sustainability-linked bonds with environmental sustainability objectives (SLB). Although disclosure using the templates will be on a voluntary basis only, it will be interesting to see

the extent to which investors come to expect issuers to adopt such disclosure format. Within one year after the entry into force of the EU GBS, the Commission shall publish guidelines for the pre-issuance disclosure and, with respect to the post-issuance disclosure, a delegated act establishing content, methodologies, and presentation of the relevant information. In April 2025,¹⁶ the European Commission published a draft delegated regulation on post-issuance disclosure templates.¹⁷

- **Supervisory Regime for Issuers:** EuGB issuers will be supervised by the “competent authority” that reviews and approves the relevant prospectus under the EU Prospectus Regulation in the relevant Member State. This authority will have various powers and sanctions to enforce compliance. For example, the competent authority may suspend an offer or admission to trading for up to 10 days if there are reasonable grounds to suspect that the issuer has failed to comply with an obligation under the transparency and external review requirements (e.g., the Factsheet). The competent authority may even prohibit an offer or admission to trading if there are reasonable grounds to believe that the issuer continues to fail to comply. Further administrative powers include prohibition of further issuances for up to one year, removal of designation as “EU Green Bond,” fines,¹⁸ and, relevant from a reputational perspective, to make public the fact of non-compliance and to require the issuer to publish the same on its website. Furthermore, disclosure of a decision imposing an administrative sanction or other administrative measure shall be published by competent authorities on their official websites immediately after the subject person has been informed of that decision.
- **Standalone Supervisory Regime for External Reviewers:** External reviewers will play an important role in maintaining the integrity of the EU GBS as they review, for example, compliance of Factsheet and Allocation Report with the requirements of the EU GBS,¹⁹ including alignment with the TSC or whether the proceeds have actually been allocated in line with the EU GBS and the Factsheet. The external reviewer essentially confirms whether the EuGB is EU Taxonomy-aligned. The rationale of the external review requirement is to provide investors with “reliable information” on EuGB in a “cost-effective” manner. The EU GBS further establishes a standalone regulatory regime for external reviewers who must register with ESMA and who will be supervised by the same with a particular focus on

avoiding actual and potential conflicts of interest.

Other Sustainable Finance Standards Commonly Used by European Issuers

ICMA Standards

Sustainability-Linked Bond and Loan Principles

The ICMA SLBPs and the LMA SLLPs mirror each other and have substantially the same requirements. In order to comply with the requirements of the SLBPs or the SLLPs, the instrument must comply with the following five core components:

Selection of KPIs

KPIs should be (i) “relevant, core and material” to the issuer’s overall business and of high strategic significance; (ii) measurable; (iii) externally verifiable; and (iv) able to be benchmarked, ideally based on historically, externally verified KPI values for at least the last three years. Importantly, the relevance and materiality of KPIs will vary by sector and business model. There can be any number of KPIs and they can relate to a variety of (environmental-, social-, and/or governance-related) sustainability factors.

SPTs should be “ambitious”, i.e., (i) represent a material improvement and avoid a “business as usual” trajectory; (ii) referenced to a benchmark or external reference, such as the issuer’s historic performance, peers, and/or science-based targets; and (iii) be consistent with the issuer’s sustainability strategy. Calibration also requires identification of an SPT test date and disclosure of a verified baseline against which the SPTs are set in the bond offering or loan documentation. Additionally, the issuer or borrower, respectively, should disclose any recalculation policy (under which the KPIs and/or SPTs and/or the underlying baseline may be recalculated during the term of the instrument, e.g., in the event of a significant change to the group perimeter, including as a result of an acquisition or divestiture). Under the SLBPs, the issuer should also disclose an explanation of how the issuer intends to achieve the SPTs.

SPT Calibration

A key characteristic of the bond or loan must vary depending on whether the issuer achieves the SPTs. A step-up in the coupon is the most commonly used bond characteristic, in which case the quantum of the step-up should be “meaningful”, although alternatives to the coupon step-up may include a redemption premium/penalty, optional/mandatory redemption, and additional

ESG information and disclosure requirements. On the loan side, a failure to meet the SPT typically results in an increase to the applicable margin.

Bond Characteristic(s)

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Reporting

The issuer should prepare and publish an annual assurance report disclosing performance against the SPTs.

Verification

The issuer must obtain a post-issuance verification of its performance level against the SPTs on an annual basis.

Green/Social Bond and Loan Principles

The ICMA GBPs and, similarly, the LMA GLPs, require four core components:

- The company must use 100% of the net proceeds (or an equivalent amount thereof) for “Eligible Green or Social Projects”. The GBPs and GLPs provide an indicative high-level list of eligible green projects (e.g., renewable energy, energy efficiency, pollution prevention and control, sustainable living and land use, biodiversity, clean transportation, water management, circular economy, green buildings, and climate change adaption).
- The company must clearly communicate the process for evaluating and selecting eligible green projects.
- The company must manage the proceeds in a transparent manner and should use reasonable endeavours to apply all proceeds within a specific period of time (typically up to a maximum of three years from the date of issuance of the bond in case of green bonds).
- The company must carry out annual “allocation” and “impact” reporting until all of the proceeds are allocated.

The GBPs and the GLPs also recommend setting up a financing framework and external review confirming alignment of the instrument or the applicable framework with the requirements of

the GBPs and GLPs.

The EU's Approach to Challenges in Sustainable Finance

Challenges for Sustainability-Linked and Use of Proceeds Instruments

Increased scrutiny and allegations of “greenwashing” have prompted a strong emphasis on ensuring that sustainable finance instruments use “best-in-class” structures. Certain green bonds have attracted criticism for financing projects that do not align with their intended environmental impact (and/or that may cause social damage or inequity). Furthermore, there is currently no precise definition under the GBP or GLP for eligible “green” projects. GBPs and GLPs only contain an indicative and high-level list of “eligible Green Project categories”.

With respect to sustainability-linked products, various high-profile SLB issuers have attracted criticism for the perceived lack of ambition of their SPTs or transition strategy. Other common SLB features that attract significant criticism are: (i) coupon step-up or margin increase is not meaningful enough, (ii) SPT test date does not fall prior to the bond's par-call date (meaning even if the SPT was not achieved, the issuer could call the SLB at par before any coupon step-up could come into effect), (iii) SPTs are not benchmarked against international targets, or (iv) SPTs generally lack ambition.

The EU GBS and Its Interaction With EU Taxonomy

The EU GBS is intended to mitigate the risks of ambiguity and greenwashing in sustainable finance by providing a clear and legally binding framework for defining what constitutes a green activity, by way of linking the use of the proceeds to the EU Taxonomy. Unlike the GBPs or GLPs, the EU Taxonomy offers precise, science-based criteria for environmental sustainability, ensuring that only activities with a substantial positive impact are classified as green. Such clarity is crucial for investors seeking to make informed investment decisions into sustainable finance, as it enhances legal certainty and investor confidence.

The voluntary disclosure templates for SLB issuers also have a link to the EU Taxonomy as they require the company to disclose the environmental objectives under the EU Taxonomy pursued by the SLB. By linking the voluntary disclosure templates at least partly to the EU Taxonomy, issuers making use of these templates would be required to provide information on how their financing aligns with the EU's environmental goals, which could reduce greenwashing

concerns. This structured approach has the potential to support market integrity and to foster trust in the sustainable finance sector in the EU.

However, so far, only a relatively small number of EuGBs have been issued and the label is primarily used by utilities, (quasi-)sovereigns, development banks, and financial institutions based in the EU. The extent to which companies in other sectors will adopt the EU GBS or continue to rely on the widely accepted GBPs remains uncertain and will largely depend on investor requirements. Currently, the ICMA labelled green bonds are still the common instrument, both for European and non-European issuers transacting in the European market, and time will tell whether the EU GBS will ultimately establish itself as the gold standard for green bonds and whether the voluntary disclosure templates introduced by the EU GBS may also become an expected disclosure “add on” for ICMA SLBs.

Other Recent Developments in the EU Sustainable Finance Space

Other recent notable developments include:

- On 30 September 2025, the EIB announced the second phase of its Climate Bank Roadmap, announcing a doubling climate adaptation financing to €30 billion for the 2026–30 period and committing to ease access to finance. The updated roadmap prioritizes funding for projects that foster EU competitiveness, security, and innovation. The EIB will also implement a “radical simplification” of funding requirements, to facilitate access to finance for cleantech developers and smaller companies to access finance, and to accelerate the green transition.
- On 26 January 2025, the Commission announced the Clean Industrial Deal (CID). The CID sets out the EU’s roadmap to drive industrial decarbonisation, boost clean technology manufacturing, and reinforce the EU’s global competitiveness. As part of the CID’s implementation, the Commission is preparing its Clean Energy Investment Strategy, which will outline measures to mobilize public and private investment in strategic clean energy sectors and support the scale-up of innovative technologies across the EU.

Conclusion and Outlook

The EU's sustainable finance architecture continues to mature, anchoring capital markets to the Green Deal through clearer definitions, stronger disclosures, and targeted supervision. The EU Taxonomy and the EU Green Bond Standard aim to channel proceeds into sustainable activities, while optional templates for other green and sustainability-linked instruments seek to enhance comparability and deter greenwashing. Together, these measures are designed with the aim to boost transparency, investor confidence, and market integrity.

However, certain complexities remain. The current requirements for Taxonomy alignment and the EU GBS supervisory regime may increase implementation challenges, and market adoption outside utilities, (quasi-)sovereigns, development banks, and financial institutions remains limited compared with established ICMA and LMA frameworks. Further, the articulation and benchmarking against the TSC as well as compliance with the DNSH requirement is often deemed complex, particularly given the evolving nature of the standards and inconsistencies in available information (which may increase given the delayed rollout of the EU Corporate Sustainability Reporting Directive), and results in intricate legal questions for issuers and investors. Sustainability-linked products are subject to ongoing assessment regarding KPI selection and target ambition, and recent cases where issuers have not met their goals, in particular in energy and decarbonization due to geopolitical and market challenges, raises further challenges, in particular as standards and investor expectations continue to shift and evolve.

For issuers and lenders, this landscape requires consideration of various options and ongoing preparation. Selecting between use-of-proceeds and target-linked structures, mapping activities to the EU Taxonomy, preparing Capex plans and impact reporting, and obtaining external reviews are now common aspects of implementation. Ongoing observation of changes to EU templates, supervisory practices, and investor preferences may support continued access to sustainable capital and the effective communication of transition strategies.

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