

**Mr Valdis Dombrovskis
Executive Vice-President
European Commission
1049 Brussels
Belgium**

Ref: ESMA response to EC targeted consultation on the establishment of an EU Green Bond Standard

Dear Vice-President Dombrovskis, *Dear Valdis,*

I am writing to you to provide ESMA's response to the European Commission's targeted consultation on the establishment of an EU Green Bond Standard (GBS) which was launched on 12 June 2020.

ESMA welcomes the Commission's consultation which builds upon the European Green Deal and supports the Commission's ambition to strengthen the European policy framework to enhance the resilience of the financial sector to environmental, social and governance (ESG) risks and to facilitate the ongoing transformation towards a more sustainable economy. Green and social bonds are likely to play an important role in creating a sustainable economic recovery following the Covid-19 crisis, as already evidenced by the increase in the proportion of social bonds in sustainable debt issuances in response to the crisis.¹

In July 2020, ESMA submitted its [response](#) to the Commission's consultation on the Renewed Sustainable Finance Strategy, where we raised specific points in relation to the EU GBS framework. ESMA sees clear value in creating a robust standard for green bonds as this will ensure consistency in the market for issuances aimed at investing in Taxonomy-aligned projects. The success of the EU GBS will depend on the extent to which it is adopted by the market and whether it is seen as a reliable indicator of investment in sustainable economic activities. A higher level of adherence to the GBS will result in improved comparability as well as deeper, and possibly more liquid, secondary markets for these types of issuances. This will, in turn, permit investors to make better informed investment decisions and encourage further issuances of green bonds.

In order for the GBS to be seen as a reliable and Taxonomy-aligned indicator for issuances of green bonds, it is crucial to ensure that external reviewers conducting assessments of GBS are using robust assessment methodologies, that they have sufficient resources and that they put measures in place to protect against conflicts of interest. EU legislation can best support these objectives by providing a legal basis for registration and supervision of external reviewers.

¹ Please refer to [ESMA50-165-1287](#) TRV – *ESMA Report on Trends, Risks and Vulnerabilities No. 2, 2020*, 2 September 2020

External reviewers are likely to be providing their services mainly at a European level. It is therefore necessary to establish a regime that ensures that the European market develops in a properly regulated and supervised, as well as cost-effective, way. An EU supervisory set-up will benefit from economies of scale and ensure consistency and cost savings for both GBS users and external reviewers, and it will avoid market fragmentation in terms of regulation and supervision. This has also been highlighted in the TEG's 2019 report on the EU GBS. Furthermore, in the context of supervision, we note that Taxonomy alignment will be assessed not only under the GBS regime but in other areas as well, and such assessments should be done in a consistent manner.

The approach described above would firstly ensure that the EU GBS framework is a reliable indicator of Taxonomy alignment. Secondly, it would achieve registration and supervision of external reviewers in a consistent way, thereby creating the conditions to support further uptake of the GBS, promoting investor protection as the interest in sustainable finance increases.

Notwithstanding the above suggestions, ESMA highlights the importance of conducting a thorough impact assessment before the Commission adopts its final legislative proposal. This will ensure that there are no unintended consequences in terms of increasing the market concentration of external verifiers which could lead to higher costs for issuers, such as SMEs. Additionally, the GBS regime should not disadvantage smaller external reviewers that can support the sustainable transition of SMEs, while still ensuring that the market for GBS develops in a properly regulated and supervised way at EU level.

Concerning social bonds, it will be crucial to ensure that the objectives of these instruments are fully aligned with widely recognised principles. While acknowledging the difficulty of this task, ESMA supports the development of a "social" EU Taxonomy as a prerequisite for reliable standards. Such a Taxonomy should be consistent with requirements on social matters in existing legislation, such as the Non-Financial Reporting Directive and the Regulation on sustainability-related disclosures in the financial services sector.

I would like to conclude by reiterating ESMA's support for the Commission's work as it finalises its proposals and our readiness to provide further views on the future GBS framework, as needed.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'S/M' with a flourish.

Steven Maijor