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European Securities and Markets Authority
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13 June 2024

Response to ESMA Consultation Paper on Technical Standards for the European Green Bond Regulation

Dear Sir/Madam,

We appreciate the opportunity to provide our detailed comments on the European Securities and Markets Authority (ESMA) Consultation Paper on the draft Technical Standards for the European Green Bond Regulation. As a leading global audit network, we are committed to supporting the development of sustainable finance frameworks that promote transparency, consistency, and growth within the European Union.

General Observations

We commend ESMA's efforts in establishing robust technical standards for the European Green Bond Regulation, aimed at fostering effective and sustainable capital markets in the EU. Diverse and sustainable financing options are critical for growth and innovation, particularly for SMEs. We believe that aligning EU capital market regulations with sustainable finance objectives is essential for achieving the EU's de-carbonisation goals.

We support ESMA's objectives to assess the knowledge, expertise and reliability of reviewers to assure high quality reviews in the public interest. The draft Regulatory Technical Standard (RTS), require reviewers to submit a substantive amount of detailed information while it is not always clear against what consistent criteria such information are assessed against. Considering that most reviewers will be either part of a regulated profession, such as auditors and audit firms, or otherwise already accredited and overseen we recommend considering to build and rely on existing equivalent frameworks and regulations. This would not only release burdens for the reviewers, it would also reduce burdens for ESMA in building and maintaining a recurring process for the assessment of reviewers.

Detailed Observations

1. Information Requirements for Registration

The requirement for external reviewers to provide extensive detailed and sometimes sensitive information on every member of their senior management and board appears overly broad. We recommend differentiating between those responsible for supervising external review work and those who are not. Information should only be required from the senior managers and board members (terms to be further defined) directly involved in the supervision of the external review work. This will streamline the process and focus on the most relevant personnel, thereby reducing the administrative burden.

2. Standards for Internal Controls and Conflicts of Interest

We note that the draft RTS on sound and prudent management and conflicts of interest do not establish specific requirements but rather request information on existing internal measures as part of a 'self-assessment'. This approach could lead to diverging standards among reviewers and complicate ESMA's oversight. For example, the draft RTS requires policies on conflicts of interest, reporting and whistleblowing, remuneration, transactions with related parties, and gifts and hospitality. However, it does not set standardized requirements for these policies. We recommend that ESMA considers, adopts, or references existing governance, quality and ethical frameworks such as International Standards on Quality Management (ISQM) 1 and the IESBA Code of Ethics. These established frameworks provide a robust basis for assessing management practices and the overall quality framework established at the reviewer's practice. By referencing these established standards, ESMA can ensure a level playing field and avoid unnecessary bureaucratic complexities.

3. Simplification of the Registration Process

We urge ESMA to simplify the registration process for external reviewers. Most reviewers will be either part of a regulated profession, such as auditors and audit firms, or otherwise accredited and overseen. For instance, it should be noted that statutory auditors in the EU are also subject to a system of registration and oversight by competent authorities in all EU member states in accordance with Directive 2006/43EC and - in the case of auditors of public interest entities - Regulation (EU) No 537/2014. Existing registrations or accreditations in the case of other reviewers should be deemed equivalent to the provisions and obligations of the draft Technical Standards which ultimately reduces administrative burdens and costs for both, reviewers and ESMA.

4. Confidentiality and Information Disclosure

Requirement such as to disclose detailed conflicts of interest and board meeting minutes raise practical and confidentiality concerns. For example, ESMA's request for a list of all conflicts of interest, including detailed inventories and mitigation measures, as well as the submission of board meeting minutes, may not always be appropriate. Such information could be sensitive and its disclosure could raise confidentiality issues. We suggest that ESMA carefully consider the necessity of certain information requests and align them more closely with the specific objectives of the EU Green Bond Regulation. We further recommend ensuring they align with existing data protection and confidentiality standards, especially with a view to the data minimization principle.

5. Knowledge and Experience of Analysts

The extensive information requested on the entire engagement team, including junior analysts, may impose significant burdens. The draft RTS asks for detailed employment history, educational background, and professional certifications for all analysts, employees, and persons directly involved in assessment activities. This level of detail may not always be necessary. We recommend

focusing on the qualifications of the individual responsible for issuing the review. Evidence of the training process for team members can be provided without detailed individual disclosures.

Conclusion

In summary, while we support the objectives of the ESMA Consultation Paper, we believe that certain aspects of the proposed technical standards could be refined to ensure a more practical, consistent, and efficient implementation. We recommend:

- Focusing information requirements on relevant senior management and board members
- Adopting or referencing existing professional standards for internal controls and conflicts of interest
- Simplifying the registration process by recognizing existing accreditations
- Carefully considering the necessity and scope of confidentiality-sensitive information requests
- Aligning the focus on the qualifications of key personnel rather than extensive details on all staff

We are committed to the success of the European Green Bond Regulation and the reviews required under it. We would be happy to discuss our comments with ESMA staff at your convenience. Please address any correspondence regarding this letter to Isabelle Tracq-Sengeissen, EY Global Sustainability Professional Practice Director (isabelle.tracq-sengeissen@fr.ey.com).

This letter may be published. We have submitted this letter together with a more detailed response to questions in the consultation document via the online portal.

EY is registered in the EU Transparency Register under reference 04458109373-91.

Yours sincerely,

A handwritten signature in black ink, reading "Hermann Sidhu". The signature is written in a cursive, flowing style.

Hermann Sidhu

EY EMEA Assurance Leader