



Mr Martin Spolc
EC DG FISMA
Copy to Ms Aila AHO, chair of TEG subgroup on Green Bond Standard

3 April 2019

Dear Mr Spolc,

Report of the Technical Expert Group (TEG) subgroup on Green Bond Standard ‘Proposal for an EU Green Bond Standard - Interim Report’.

We welcome the opportunity to respond to this consultation and to share our suggestions in relation to the proposed reporting and external review scheme.

Provided there is a clear definition of ‘green bonds’, and that definition is based on clear and appropriate criteria to ensure consistent application of the definition, EU labelled green bonds should help to provide clarity, consistency and confidence for investors in relation to green investments. Standardised external review procedures will further help to build confidence and growth in the market, helping to mobilise the capital required to transition to a low carbon economy.

We particularly welcome the inclusion of annual reporting using impact metrics as a requirement in the standard as we are hearing increased demand from investors for robust and credible information in relation to the green performance of investments.

We recognise the benefits of the proposals to develop a centralised accreditation regime for external reviewers, and we welcome a move towards promoting consistency of reporting and external review procedures. As the green bond market grows, historical ‘green’ performance of an issuer or a project or asset is likely to be relied upon and potentially used as one of the key factors for the basis of investment decision-making by investors, which increases the need for independent assurance in relation to the allocation of proceeds and impact metrics.

As there is an administrative cost to operating within a centralised accreditation scheme, we would like the Accreditation Committee to allow existing national accreditation schemes that have been implemented on similar subject matter, for example in response to the EU Directive on non-financial reporting in France, to also cover the Green Bond Standard, in order to reduce the time and cost for all stakeholders.

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Overall, the high level proposals of the standard as described so far appear to be workable, and are broadly similar to the Climate Bond Initiative standard which had similar objectives and to which we contributed in the development stage. However, any further development of the standard and the accreditation regime should involve all relevant potential stakeholders, including assurance providers, to ensure that the final proposals are feasible and technically viable from an assurance perspective.

We also believe that valuable lessons can be learnt from existing schemes where third parties provide external review services. The accreditation criteria for external reviewers must not be made so restrictive that only a limited number of potential verifiers actively participate, as this will impede the development of an open, fair and competitive market for external review services.

For example, while clear independence criteria are necessary for an accreditation regime, for the ESMA accreditation regime for the Simple and Transparent and Standardized (STS) regulation, they have been defined in such a way that currently, the number of accredited third party verification agents is limited to only two firms, as the provision of virtually all other services to the issuer is prohibited.

We have included in Appendix A some more detailed observations on the proposed standard for your consideration.

If you have any questions regarding the views in this letter, please contact Alan McGill (alan.d.mcgill@pwc.com). We would be happy to discuss any of the points raised and would welcome being involved in the further development of the external review procedures.

Yours sincerely,

A handwritten signature in cursive script that reads 'Jan McCahey'.

Jan McCahey
PwC Global Public Policy Leader

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Appendix A - Detailed observations

- Annex 1 Section 4.1 Green projects (p.39) - the proposal states that *'green projects shall align with these criteria allowing however for exceptional cases where these may not be directly applicable as a result among other of the innovative nature, the complexity, and /or the location of the Green Projects'*. We understand why innovation may result in projects that precede the taxonomy, however it is not immediately clear how or why complexity or location would prevent the taxonomy being applied. Further guidance on this point should be developed to ensure consistent application.
- Annex 1 Section 4.1 Green projects - in relation to the same point, the draft standard states that *'an accredited external reviewer shall then either confirm alignment with the technical criteria, or alternatively that the projects nonetheless meet the requirements under the EU Taxonomy framework ie that they a) contribute substantially to at least one of the EU's Environmental Objectives, b) do not significantly harm any of the other objectives, and c) comply with the minimum social safeguards'*. Independent assurance requires clear and agreed reporting criteria (ie a taxonomy) that are specific and detailed enough to allow an objective assessment of whether the criteria have been met and lead to the same conclusion to be drawn by different verifiers based on the same evidence. The Accreditation Committee and the Operating scheme in the absence of a taxonomy introduces subjectivity and judgement, and risks undermining the fundamental objective of the standard, which is to promote clarity and consistency and confidence for investors, therefore in our view, an external review could not be provided in these situations. Such subjectivity would represent an impediment for independent assurance in that it would not meet the pre-conditions for accepting such an engagement.
- Annex 1 Section 4.2 - Point 1 states that the issuer shall indicate the following in their Green Bond Framework: *'the environmental objectives of the EU Green Bond or EU Green Bond Programme and how the issuers strategy aligns with such objectives'*. This should be reversed to focus disclosures on how the green bond objectives align with the issuers strategy.
- Annex 1 Section 4.3 Reporting- states that issuers shall report at least annually, until full allocation of the bond proceeds to Green Projects, and thereafter, in case of any material change in this allocation. The term 'material' needs to be defined to enable consistent application of this requirement.
- Annex 1 Section 4.4 Verification - although reporting is required by the issuer 'at least annually' and in the case of any material changes to allocations, the GBS does not currently make it clear whether an external review is required for each round of allocation and impact reporting. We recommend that the frequency of external review is clarified.
- Annex II Section III Accreditation criteria - the principle of independence should also be included in this section, together with the management of conflicts of interest and the need for professional scepticism.