

27 September 2021

Commissioner McGuinness  
Directorate-General for  
Financial Stability  
Financial Services and  
Capital Markets Union  
European Commission  
B-1049 Brussels

Submitted electronically via the EU Commission's website

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**Re.: EU Commission: Proposal for a Regulation of the European Parliament and of the Council on European green bonds**

Dear Commissioner McGuinness,

The IDW is pleased to comment on the Proposal for a Regulation of the European Parliament and of the Council on European green bonds published on 06.07.2021 (hereinafter referred to as "the Proposal").

The IDW represents over 11,000 Wirtschaftsprüfer [German Public Auditors], which is more than 81 % of all Wirtschaftsprüfer and audit firms in Germany. Our members are from the only profession in Germany to have been entrusted with the performance of statutory audits of the financial statements of all entities that are legally required to have their financial statements subject to audit in Germany, including the larger publicly listed companies that are presently required to publish non-financial information (NFI).

We welcome the Proposal as an important part of the European Commission's broader agenda on sustainable finance, which we fully support. The IDW views the Proposal – including alignment to the EU Taxonomy – as a positive development in that it adds a high degree of transparency, legal certainty and comparison to European green bonds.

We agree that non-mandatory application is currently a sensible and appropriate approach, whereby any issuer intending to use the label "EU Green Bond" must comply with the provisions of the final EU Regulation.

In this context we certainly view the Commission' recognition of the imperative for reducing the threat of greenwashing in the EU Green bond market by

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Prof. Dr. Klaus-Peter Naumann,  
WP StB, Sprecher des Vorstands;  
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prescribing involvement of an external reviewer and establishing a system for registering and supervising external reviewers as a key aspect to ensure the success of European green bonds on the global stage.

Our membership possesses considerable expertise and experience in the provision of assurance and assurance-related services, as members of the only profession in Germany permitted to perform statutory audits of the financial statements of all sizes of private sector entities. Furthermore, our members are required to adhere to high quality professional standards governing both their ethical behavior and the quality of their work, such that they are well equipped and well qualified to serve in the capacity of an external reviewer, as foreseen in the Proposal.

In March 2021, the IDW published a knowledge paper on green bonds together with convenience translations in the English language, to which we would like to draw your attention, and to which we refer in this letter. These papers can be accessed by following the links below.

IDW Knowledge Paper: Green Bonds – Towards a reliable market for green bonds

German language version:

<https://www.idw.de/blob/129034/058f0ddce4d6c1ee26c42ee8d293b1a2/down-knowledgepaper-greenbonds-data.pdf>

English language version:

<https://www.idw.de/blob/131468/484608a988f845ac66701971bd85a96d/down-knowledgepaper-greenbonds-englisch-data.pdf>

Whilst we support much of the Proposal, we outline specific concerns that we would urge the Commission to consider in finalizing the Regulation.

***A lack of clarification and consistency of reviewers' work efforts underlying reviewers' reports may potentially undermine investor confidence in European green bonds***

Part 5 of the afore-mentioned IDW Knowledge Paper on green bonds explains that verification services (as per the Proposal – services of an external reviewer):

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- support issuers in their own monitoring of the high governance requirements and controls over the lifecycle of the green bond and are designed to address the needs of investors as to the veracity of information – not least as both issuers and investors will wish to avoid reputational damage and adhere to their own governance and risk management requirements
- provide societal benefits by ensuring transparency and credibility as a counter to potential greenwashing threats, and
- when performed by independent third parties (i.e., external reviewers), strengthen confidence in the green bond market as a whole.

This paper also provides an outline of the different verification or assurance services commonly offered by different types of organizations active in the green bond markets at the time of its publication in March 2021. The IDW noted that these different services exhibit a distinct difference in terms of their informational value and level of assurance; explaining that differences arise primarily from the following characteristics:

- Comparability of the criteria used for the work
- Understandability of the assurance or validation procedures performed
- Level of assurance
- Consistency in the structure of the auditor's or consultant's report
- The initial training and continuing professional education requirements for external reviewers and the measures ensuring their compliance therewith
- The required quality management procedures
- The required external quality control measures
- The principles of professional conduct, including the requirements for the external reviewer's independence
- The experience and expertise in "assurance skills and techniques".

Thus, whilst we note that the Proposal's focus is primarily on the later factors (i.e., ESMA's measures to ensure the suitability of the reviewer), our concern is that better clarification is still needed regarding the first three of these factors.

The Proposal neither sufficiently prescribes nor appropriately explains the work effort that the provision of a review report under the proposed Regulation shall entail.

Since Annex IV, No. 4 of the Proposal requires the reviewer's report to include information as to:

- the sources of information relied upon for the review

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- an explanation of the assessment methodologies and key assumptions and
- a clear statement that the reviewer considers the quality of information provided by the issuer sufficient

in addition to requirements set forth in Annex IV No. 5:

- a detailed assessment of compliance with Articles 4 and 7 of the (draft) Regulation, and
- the reviewer's opinion thereon

readers will be left to “decipher” this information in order for them to conclude on how the work performed in the individual case supports the degree of confidence they may reasonably expect to place on that individual review report.

Indeed, the proposed required statement: “The independent opinion of the external review is to be relied upon only to a limited degree.” for both pre-issuance and post-issuance reviews is, at best, unclear (is it intended to imply that the external reviewer has obtained only limited assurance as opposed to the higher level of assurance that the reviewer could have been required to obtain (i.e., reasonable assurance)). At worst, it could be read as implying that a reviewer's report is of little value to investors in European green bonds, although we presume that this is not the intention! Similarly, the use of terminology elsewhere (e.g., positive opinion and negative opinion) could be confusing, whereas there is merit in considering whether exception reporting (i.e., a qualified opinion) could be expressed, which would also be a helpful option from an investor's perspective.

Whilst some interested and informed investors may be able to use an individual review report to determine the level of comfort they themselves will derive, there is a distinct danger that less well informed investors may erroneously believe that all review reports pertaining to EU green bonds are of equal value (or as explained above of limited value) when – due to variations in the work efforts – they may not be.

Ultimately, our concern is that a lack of consistency and appropriate clarification of the work effort underlying reviewers' opinions could undermine investors' confidence. We note the intent of the Proposal (page 8 of the Explanatory Memorandum) is also to “build on market best practices in the field of reporting and review...” and this appreciates that it is neither necessary nor appropriate for the EU Commission to develop or prescribe standards to be used in reviewing EUGBs. Thus, we suggest that requiring external reviewers to confirm in their report their compliance with (and to clearly identify) the specific

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professional standard pursuant to which they have performed their review would be adequate in providing such clarity and enabling readers to make useful comparisons. For members of the assurance and audit profession, and as explained in our knowledge paper, the international standard ISAE 3000 might be appropriate as this standard could be applied to either a reasonable or limited assurance engagement in this context.

In the IDW's opinion, as the European Commission has stated its intent is for the Proposal to result in a "gold standard" for European green bonds, it would be appropriate for independent external reviewers to be required to obtain reasonable, rather than limited, assurance to help limit the threat of greenwashing.

### ***Ensuring the eligibility and subsequent quality of work performed by external reviewers***

We fully support the Proposal addressing the measures needed to ensure the quality of work performed by external reviewers.

In this context it is proposed that the European Securities and Markets Authority (ESMA) play a key role in establishing criteria for assessing the eligibility of external reviewers seeking registration including their qualifications, experience, record keeping, transparency, and conflict of interest management as well as in supervision of their compliance in respect of such requirements.

Members of the auditing and assurance profession are already subject to a range of requirements aimed at ensuring the quality of their work and in many instances to external supervision, especially in relation to the performance of statutory audits. We suggest that ESMA might usefully draw on this experience in developing the various draft regulatory technical standards foreseen in the Proposal. The IDW would be pleased to assist further in this regard, if required.

### ***Further Remarks***

Certain aspects of the proposed requirements would benefit from clarification.

As explained above, the work effort in regard to the external reviewer's assessment as referred to in Annex IV is a crucial aspect to address.

Article 30 relates to the publication of pre-issuance reviews and post-issuance reviews and is a further example of where clarification is needed. In particular, it would be appropriate to explain what "within a reasonable period of time"

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(para. 2) shall mean and possibly also “without delay following the assessment of the allocation reports by the external reviewer” (para. 3) as well as “without delay” (para. 5) in regard to when reports or information are to be made available to the public.

We would be pleased to provide you with further information if you have any additional questions about the content of this letter, or to discuss our views with you.

Yours sincerely

Klaus-Peter Naumann  
Chief Executive Officer