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WORKING PAPER

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**WORKING DOCUMENT**

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| From: | Czech Republic |
| To: | Working Party on Financial Services and the Banking Union (Sustainable Finance)<br>Financial Services Attachés |
| Subject: | European Green Bond - CZ non-paper: Exemptions for SMEs |

Ministerstvo financí
České republiky

**Non-paper**



Prague, 19 November 2021

**CZ non-paper: Exemptions for SMEs**

Czech Republic considers that EuGB regime will be difficult to access by SMEs. The main reasons will be compliance costs for external reviewers:

(1) paying at least 30 000 EUR/year to ESMA (see for example Art. 7(3) of Commission Delegated Regulation (EU) No 1003/2013 of 12 July 2013 supplementing Regulation (EU) No 648/2012 of the European Parliament and of the Council with regard to fees charged by the European Securities and Markets Authority to trade repositories on trade repositories)
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(2) costs of compliance with requirements in Articles 14 to 37 of EuGB-R.

Slovenian Presidency proposes in Art. 4(1) of EuGB-R (compromise proposal from 18 November 2021) that issuance costs of EuGB may be paid from the proceeds of EuGB. Typically it may be costs for external reviewer (in our opinion marketing costs should be explicitly excluded). For SMEs this will in fact mean that they will borrow money to pay for external reviewer and will have to repay them in future (possibly by issuing new issue of EuGB - if costs for previous issuances are eligible). This may significantly help SMEs, but in our opinion should not be the final solution.

One possibility is to set in Level 1 that there is no minimum annual supervisory fee to ESMA (and it shall in all cases be calculated from revenues), however still external reviewer will have to pay from 45 000 to 100 000 EUR registration fee (based on the example of trade repositories - see Art. 6(4-6) of Commission Delegated Regulation (EU) No 1003/2013). Even the registration fee may be unaffordable for smaller entities (external reviewers).

The costs born by external reviewers will be in the end paid by issuers of EuGBs (clients of external reviewers), including SMEs. This may make the price of external reviewers unaffordable for SMEs.

We therefore propose - for the consideration of all Member States, that similarly to exemption for sovereigns (they can use state auditors or other public bodies instead of external reviewers), there could be exemption for SMEs to use auditors of public-interest entities (instead of external reviewers). In our opinion this will significantly diminish costs for SMEs to issue EuGBs.

Question may be, how to define SMEs (definition by market capitalization as in MiFID is not appropriate - they may not be listed). So we can use for example numbers from Accounting Directive or we can define SME by size of the issue (for example EU growth prospectus may be used for bonds up to 20 000 000 EUR). We can also consider mid-caps as defined in Art. 3(d)(i) of EuVECA-R. This may be debated, but in our opinion is not so much important (especially if no specific rules on SMEs exist yet in the EuGB-R proposal) - any proposal would work in our opinion.

We would like to hear views of other Member States on this issue/proposal.

Drafting may be for example as follows:
**New Art. 11a: If the issuer European green bonds is not large undertaking as defined in Art. 3(4) of Directive 2013/34/EU, he may obtain pre-issuance and post-issuance reviews from an external reviewer or from an auditor for public-interest entities.**
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**Art. 14 (new para 4): Auditors for public-interest entities shall not be subject to Title III and Title IV of this Regulation.** (inspiration by Art. 11 of EuGB-R may be considered)