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An ESG Reckoning Could Be on the Horizon for Municipal Bonds.

The Municipal Securities Rulemaking Board, the self-regulatory organization over municipal bond issuers, has started a key first step on the way to regulation within the space. The MSRB has issued a Request for Information as of December, seeking to find out what ESG borrowers are disclosing regarding how their bonds relate to ESG, [reports Bloomberg](#).

Municipal bonds related to ESG experienced a record year last year, bringing in \$24.6 billion of green debt, the biggest portion of the ESG muni pie. However, an analysis done last year by a UN group found that borrowers weren't disclosing ESG data effectively or with any type of consistency, including risks that pertained to the environment and climate change.

Current ESG standards within municipal bonds are such that data and what is reported, as well as the frequency it is reported at, are all optional. The call for commentary, which is an appeal to public officials, bankers, investors, as well as the general public, focuses heavily on phrasing centered around the word "standard" or an iteration of it.

It's a bit of a writing on the wall situation and mirrors a larger call that the SEC put out in March 2021 requesting ESG commentary on climate disclosures by issuers. While no regulations have been forthcoming yet, analysts anticipate some sort of guidance at minimum to be released by the Commission this year.

The main culprit in drawing the regulatory attention within munis could be the very thing that brought in so much money to the space: green bonds. At their inception in 2013 when Massachusetts sold the very first self-styled green bonds to pay for a host of upgrades centered around energy efficiency, water quality, and pollution control, any state or local government could create a bond and decide that it was green without any oversight or standards. That's still mostly the case, though there have been some attempts at creating standards within the industry since.

"Many investors and other market participants are seeking ESG-related information beyond what historically has been provided to the market. In response, private vendors are offering ESG certification service," writes the MSRB in their [statement](#).

The cropping up of private vendors centered around green bonds creates the potential for an uneven playing field for investors, with some investors having access to potentially better information, or even more information, than what is currently legally required. It's something the MSRB could be seeking to remedy in their Request for Information, and it remains to be seen what will come of the information gathered once the window closes for submissions.

ETF TRENDS

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