

Sustainability regulatory update – issue#6

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EU STRATEGY ON SUSTAINABLE FINANCE *Ongoing - Non-binding initiative*

As part of the [legislative package](#) published by the European Commission (EC) in May 2018, a Technical Expert Group (TEG) has been working over the last months on the technical frameworks of the three main legislative proposals:

- taxonomy,
- benchmarks & green bonds and
- non-financial disclosure to increase transparency of investments.

TAXONOMY

After the public consultation in February 2019, on 18 June, the TEG published its report on the EU Taxonomy, incorporating elements of the feedback received. With a focus on the real estate sector, the latest revision of the Taxonomy partially incorporates the recommendations submitted by EPRA in February 2019¹.



Regarding **economic activities** the revised taxonomy covers now individual renovation measures & renewable energies installations (3) and acquisition and ownership of buildings (4):

1. Construction of new buildings: This activity covers real estate development and enables accounting project capital expenditures of construction clients and the equity/revenues of developers and construction companies as eligible under the Taxonomy.
2. Renovation of existing buildings: This activity includes both relative improvements (30% against baselines) and comprehensive interventions on buildings and enables accounting project capital expenditure of renovation clients (including renovation costs unrelated to energy efficiency measures) and the equity/revenues of renovation companies as eligible under the Taxonomy.
3. Individual renovation measures, installation of renewables on-site and professional, scientific and technical activities: This activity covers a) single technical interventions, enabling the accounting of project capital expenditure of clients (including only costs related to the eligible measures) and the equity/revenues of installation companies; and b) services functional to building performance improvement, enabling the accounting of project capital expenditure of clients and the equity/revenues of companies offering such services as eligible under the Taxonomy. *NEW*
4. Acquisition and ownership of buildings: This activity covers the purchase of buildings, building ownership and improvement from an asset perspective and enables accounting project capital expenditure (related to the acquisition) and the revenues/equity of the owner as eligible under the Taxonomy. This activity covers portfolios and real estate trusts. *NEW*

¹ Official EPRA's full response can be found under [link 1](#) and [link 2](#).



EPRA's main concerns on thresholds, metrics and ex-ante approach the TEG opted for, still remain.

The revised Taxonomy² proposes the following approaches for each one of the economic activities identified:

1) Construction of new buildings	
Metric	Thresholds
There is no single specific metrics defined, as the thresholds rely on requirements set in the national regulation and building codes for NZEB transposing the EPBD in each Member State.	A new building is eligible when it meets national requirements for NZEB and has a level of energy performance equivalent to the EPC rating of B (or above).
2) Renovation of existing buildings	
Metric	Thresholds
Metrics set in the applicable building regulation and building codes for major renovations transposing the EPBD, or, in the case of relative improvements, on energy savings calculated in terms of net primary energy demand during the operational phase of the building life-cycle, i.e. "Phase B6" according to CEN T350, expressed as kWh/m ² per year.	A renovation is eligible when it meets either of the following criteria: a) The renovation is compliant with energy performance standards set in the applicable building regulations for major renovations transposing the Energy Performance of Buildings Directive (EPBD); or, b) The renovation achieves energy savings of at least 30% in comparison to the baseline performance of the building before the renovation. The baseline performance and predicted improvement shall be based on a specialised building survey and be validated by an accredited energy auditor.
3) Individual renovation measures & renewables energy installations	
Metric	Thresholds
There are no defined metrics. In the case of individual building renovation measures, the thresholds rely on requirements set in the national regulation and building codes transposing the EPBD by each Member State.	The following on-site renewable energy installations are eligible: <ul style="list-style-type: none"> • Installation of solar photovoltaic modules (and the ancillary technical equipment); • Installation of solar hot water panels (and the ancillary technical equipment); • Installation of ground-source heat pumps using a refrigerant with GWP<10, calculated following Annex IV of Regulation (EU) No 517/2014 (F-gas Regulation), (and the ancillary technical equipment); • Installation of wind turbines (and the ancillary technical equipment); • Installation of solar transpired collectors (and the ancillary technical equipment); • Installation of thermal or electric energy storage units (and the ancillary technical equipment).

² Methodology proposed for the building sector is covered from p363 to 386 of the [Technical Report](#)

	<p>The following individual building renovation measures are eligible if compliant with the energy performance standards set for individual components and systems in the applicable building regulations transposing the Energy Performance Building Directive (EPBD):</p> <ul style="list-style-type: none"> • Addition of insulation to the existing envelope components, such as external walls, roofs (including green roofs), lofts, basements and ground floors (including measures to ensure air-tightness, measures to reduce the effects of thermal bridges and scaffolding) and products for the application of the insulation to the building envelope (mechanical fixings, adhesive, etc.); • Replacement of existing windows with new energy efficient windows; • Replacement of existing external doors with new energy efficient doors; • Installation of façade and roofing elements with a solar shading or solar control function, including those that support the growing of vegetation; • Installation and updating of HVAC and domestic hot water systems, including equipment related to district heating service; • Installation of efficient lighting appliances and systems; • Installation of low-flow kitchen and sanitary water fittings; • Installation of third-generation smart meters for electricity load monitoring; • Installation of zoned thermostats, smart thermostat systems and sensing equipment, e.g. motion and day light control; • Installation of Building Management Systems (BMS).
4) Acquisition and ownership of buildings	
Metric	Thresholds
<p>The thresholds rely on either the respective metrics set in the applicable building regulation and building codes for major renovations transposing the EPBD, or, in the case of relative improvements, on energy savings calculated in terms of net primary energy demand during the operational phase of the building life-cycle, i.e. “Phase B6” according to CEN T350, expressed as kWh/m² per year.</p>	<p>Until absolute thresholds are established, benchmarking the energy and GHG emissions performance of, as a minimum, the top 15% of the stock, a building acquisition is eligible under either of the following conditions:</p> <ul style="list-style-type: none"> • Acquisition of a building issued with EPC rating B (or above); • Acquisition of any other building, provided that it is subsequently improved (within 3 years of purchase, either through one single improvement achieving the thresholds or through a series of improvements), achieving one of the following: <ul style="list-style-type: none"> ○ savings in energy performance of least 30% against the baseline; performance and predicted improvement shall be based on a specialised building survey and be validated by an accredited energy auditor; ○ EPC rating B (or above);

	<ul style="list-style-type: none"> ○ Energy performance standards set for major renovation in applicable building regulations transposing the EPBD.
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Official EC documents can be found at the following links:

- [Technical Report](#) – Building sector is covered from p363 to 386
- [User guide](#)
- [2-page summary](#)

BENCHMARK REGULATION

The new disclosure requirements proposed by the TEG apply to a wide range of indices available on the market in relation to different underlying asset classes. The TEG proposes to set out **disclosure requirements** based on how the market currently understands that ESG and climate-related considerations can be integrated in the valuation of assets across various asset classes. The recommendations on **minimum disclosures for the methodology document and specifications** for the benchmark statements therefore vary based on the maturity of ESG data and considerations in a given asset class. As a result, indicators are put forward by asset class. ESG disclosure templates are outlined, as well as specifications for the publication of ESG information

Several criteria have to be met to qualify as an EU Climate Transition Benchmark (EU CTB) or an EU Paris-Aligned Benchmark (EU PAB). Among the others:

- Climate benchmarks must demonstrate a significant decrease in overall GHG emissions intensity compared to their underlying investment universes or parent indices. This assessment must gradually integrate Scope 3 emissions during a four-year period for sectors where the impact on climate change is significant but located outside of direct operational boundaries (such as Oil & Gas and transport). This minimum relative decarbonization is set at 30% for EU CTBs and 50% for EU PABs.
- Climate benchmarks must demonstrate their ability to reduce their own GHG emissions intensity on a year-on-year basis. This minimum ‘self-decarbonization’ rate has been set in accordance with the global decarbonization trajectory implied by IPCC’s most ambitious scenario: 1.5°C with no or limited overshoot (see fig. 1).

Official EC documents can be found at the following links:

- [Interim report](#)
- [2-page summary](#)

GREEN BOND STANDARD

The EU Green Bond Standard would comprise four critical elements:

- 1) Alignment with EU-taxonomy: proceeds from EU Green Bonds should go to finance or refinance projects/activities that (a) contribute substantially to at least one of the six taxonomy Environmental Objectives, (b) do not significantly harm any of the other objectives and (c) comply with the minimum social safeguards. Where (d) technical screening criteria have been developed, financed projects or activities shall meet these criteria, allowing however for specific cases where these may not be directly applicable.
- 2) Publication of a Green Bond Framework, which confirms the voluntary alignment of green bonds issued with the EU GBS, explains how the issuer’s strategy aligns with the environmental objectives, and provides details on all key aspects of the proposed use-of-proceeds, processes and reporting of the green bonds.
- 3) Mandatory reporting on use of proceeds (allocation report) and on environmental impact (impact report).

- 4) 4Mandatory verification of the Green Bond Framework and final allocation report by an external reviewer.

Official EC documents can be found at the following links:

- [Webpage](#)
- [Report with a proposal for a EU Green Bond Standard.](#)
- [2-page summary](#)

EPRA’s engagement, future actions and timeline

<p>July 2019 - Upcoming TEG to launch a public consultation on EU Taxonomy report.</p>	<p>EPRA to contribute to the upcoming consultation on the Taxonomy new recommendations.</p>
<p>Jun 2019 TEG published new reports on</p> <ul style="list-style-type: none"> • the EU Taxonomy, • an EU Green Bond Standard, and • Climate Benchmarks and benchmark’s ESG disclosures <p>Commission adopted the non-binding guidelines accompanying the NFRD on reporting on climate-related information.</p>	<p>EPRA to verify the new recommendations proposed by the TEG.</p>
<p>Dec 2018 EC published a public consultation on the taxonomy proposal.</p>	<p>Dec 2018 to Mar 2019</p> <ul style="list-style-type: none"> • EPRA responded to the consultation (link 1 and link 2). • Follow up outreach programmes targeting TEG’s members to discuss EPRA’s position.
<p>Mid- March 2018 EC set an action plan based on the HLG’s outcomes.</p> <p>May 2018 EC adopted a legislative package of proposals on:</p> <ul style="list-style-type: none"> • taxonomy, • benchmarks including green bonds and • non-financial disclosure to increase transparency of investments. <p>Along with this proposal pack, the commission has also launched four technical groups.</p>	<p>Sept 2018:</p> <ul style="list-style-type: none"> • EPRA revised the three proposals with a particular focus on the EU taxonomy which has implications for the other two proposals as it defines criteria for classifying economic activities as sustainable. • EPRA prepared a position paper that calls for direct investments (listed equities) to be part of the scope of the legislation on Taxonomy. <p>Oct-Nov 2018: EPRA’s outreach to the European Council, Parliament and Commission through the technical group on taxonomy composed by PGM, RICS, CBI and BNP Paribas.</p>

<p>End of Jan 2018 HLG published the Final Report on Sustainable Finance with eight recommendations</p>	<p>Feb 2018 EPRA identified a set of follow-up actions tailored to the following recommendations:</p> <ul style="list-style-type: none"> • Taxonomy <ul style="list-style-type: none"> ○ A1 - EPRA applied to participate in the Working Committee on sustainability taxonomy • Non-Financial Reporting Directive update in line with the Task Force on Climate-related Financial Disclosures: <ul style="list-style-type: none"> ○ A1 - Engagement with UNEP FI Property Working Group A2 - Engagement with DG FISMA regarding the Non-Financial Reporting Directive and opportunity to take part to the financial sector-specific technical working group.
<p>Nov 2017 EC launched a consultation on investors' duties regarding ESG</p>	<p>Jan 2018 EPRA responded to the public consultation, available here.</p>
<p>Jul 2017 HLG published the interim report</p>	<p>Jun 2017 EPRA met with Senior Policy Advisor at DG FISMA (Secretariat of the HLG).</p> <p>Sept 2017 EPRA responded to the questionnaire promoted by the HLG on Sustainable Finance – interim report which is available here.</p> <p>Oct 2017 Together with INREV, EPRA prepared a two-page letter with very specific and pragmatic recommendations to share with the HLG. The document is available here.</p>

NON-FINANCIAL REPORTING DIRECTIVE – New non-binding guidelines incorporating TCFD *Non-binding initiative*

On 18 June 2019 Commission adopted the non-binding guidelines accompanying the Non-Financial Reporting Directive on reporting on climate-related information, based on the previous work of the TEG. [These guidelines](#), which inter alia incorporate the TCFD recommendations, will provide companies with practical recommendations on how to better report the impact that their activities are having on the climate as well as the impact of climate change on their business.

ADVANCING NET ZERO AND LEED ZERO SERIES *market driven initiative*

Advancing Net Zero is a World Green Building Council driven initiative. The project, which calls for 100% net zero carbon buildings by 2050, was launched in 2016 and has already seen concrete action across its 15 participating Green Building Councils. The initiative is based on the assumption that in most situations, net zero energy buildings, i.e. buildings that generate 100% of their energy needs on-site, are not feasible. Therefore in order to achieve global emission reduction targets, building owners and developers should start looking at Net carbon buildings.

According to the WGBC's definition, a net zero carbon building is highly efficient with all the remaining energies from on-site and/or off-site renewable sources. Moreover, a net zero carbon building should follow some key principles.

As part of this initiative, the participating Green Building Councils have committed to developing net zero certification schemes in 2018/2019. In November 2018, USGBC has published the LEED Zero series of certifications³. [The LEED Zero Guide can be an helpful tool for companies to define Net Zero targets for energy, CO2, waste and water.](#)

³ <https://new.usgbc.org/leed-zero>
<https://www.usgbc.org/resources/leed-zero-program-guide>