

# Sustainability regulatory update – issue#5

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## EU STRATEGY ON SUSTAINABLE FINANCE *Ongoing*

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 proposals:

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

### TAXONOMY

The Commission assigned to the TEG the development of a Taxonomy framework for the most impactful economical activities. The TEG called for advices on the proposed taxonomy via a public consultation EPRA responded to in February 2019, with a particular focus on:

- Construction of new buildings (residential and non-residential)
- Renovation of existing buildings (residential and non-residential)

The full response can be found under [link 1](#) and [link 2](#).



#### MAIN HIGHLIGHTS FROM EPRA'S POSITION:

- Proposed to include, alongside new constructions and building renovations, 'Energy efficiency and low-carbon projects' to promote soft renovations with high climate change mitigation impact;
- Investments should be focused on deep and soft renovations of the existing building stock; new constructions should be promoted only when there is a real market need;
- Endorsed the use of energy and carbon intensity measures but highlighted the limits of an ex-ante approach and recommended a set of energy/carbon metrics reflecting the impact of the entire lifecycle of the building;
- Insisted that the performance of an entire portfolio of a company should also be considered in the taxonomy, together with single assets;
- Highlighted the risk of delivering inconsistent incentives if Nearly zero-energy buildings (NZEB) or Energy Performance Certificate (EPC) were used to define thresholds.

### BENCHMARK REGULATION

The European Parliament and the Presidency of the Council reached a political agreement on low carbon benchmarks proposal. The intention is to create a tool for investors to measure the carbon footprint of their investment portfolio.

The proposal introduces a new category of financial benchmarks:

- 1) EU climate transition benchmark
- 2) EU Paris-aligned benchmarks focusing only on the elements that are aligned with the Paris' goals (2C and 1.5C degrees targets)

The regulation introduces mandatory requirements for all the benchmarks to disclose their methodology by the end of 2021.

## GREEN BOND STANDARD

As part of the Action Plan on Financing Sustainable Growth, the Commission committed to develop an EU Green Bond Standard under Action 2. The TEG published its interim report, outlining 11 preliminary recommendations for the development of an EU Green Bond Standard. A public consultation has been opened earlier in March, focusing especially on key barriers to the development of the green bond market, eligible use of proceeds raised, reporting and verification requirements, as well as on possible incentives to help the growth of the European green market.

## NON-FINANCIAL DISCLOSURE TO INCREASE TRANSPARENCY OF INSTITUTIONAL INVESTORS

The European Parliament and the Presidency of the Council reached a political agreement on a second sustainable finance package proposal – disclosure relating to sustainable investment and sustainability risks. The proposal sets out a harmonised EU approach to the integration of sustainability risks and opportunities into the procedures of institutional investors.

Investors will be required to disclose:

- 1) Procedures in place for integration of ESG risks into their investment and advisory process;
- 2) To what level those risks might have an impact on the profitability of the investment;
- 3) Information on how their strategy is implemented;
- 4) Evidences regarding the sustainability or climate mitigation and adaptation impacts of their products and portfolios.

The regulation still has to be adopted.

## EPRA's engagement, future actions and timeline

<p><b>Jul 2017</b> HLG published the <a href="#">interim report</a></p>	<p><b>Jun 2017</b> EPRA met with Senior Policy Advisor at DG FISMA (Secretariat of the HLG).</p> <p><b>Sept 2017</b> EPRA responded to the questionnaire promoted by the HLG on Sustainable Finance – interim report which is available <a href="#">here</a>.</p> <p><b>Oct 2017</b> Together with INREV, EPRA prepared a two-page letter with very specific and pragmatic recommendations to share with the HLG. The document is available <a href="#">here</a>.</p>
<p><b>Nov 2017</b> EC launched a consultation on investors' duties regarding ESG</p>	<p><b>Jan 2018</b> EPRA responded to the public consultation, available <a href="#">here</a>.</p>

<p><b>End of Jan 2018</b> HLG published the Final Report on Sustainable Finance with eight recommendations</p>	<p><b>Feb 2018</b> EPRA identified a set of follow-up actions tailored to the following recommendations:</p> <ul style="list-style-type: none"> <li>• Taxonomy <ul style="list-style-type: none"> <li>○ A1 - EPRA applied to participate in the Working Committee on sustainability taxonomy</li> </ul> </li> <li>• Non-Financial Reporting Directive update in line with the Task Force on Climate-related Financial Disclosures: <ul style="list-style-type: none"> <li>○ A1 - Engagement with UNEP FI Property Working Group</li> <li>○ A2 – Engagement with DG FISMA regarding the Non-Financial Reporting Directive and opportunity to take part to the financial sector-specific technical working group.</li> </ul> </li> </ul> <p><b>March, 6</b> <a href="#">ZIA’s Dialogue on Sustainable Finance</a> in Brussels. Olivier Elamine, EPRA Sustainability Committee Chair, participated as a panellist.</p>
<p><b>Mid- March 2018</b> EC set an action plan based on the HLG’s outcomes.</p> <p><b>May 2018</b> EC adopted a legislative package of proposals on:</p> <ul style="list-style-type: none"> <li>• taxonomy,</li> <li>• benchmarks including green bonds and</li> <li>• non-financial disclosure to increase transparency of investments.</li> </ul> <p>Along with this proposal pack, the commission has also launched four technical groups.</p>	<p><b>Sept 2018:</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• EPRA prepared a position paper that calls for direct investments (listed equities) to be part of the scope of the legislation on Taxonomy.</li> </ul> <p><b>Oct-Nov 2018:</b> EPRA’s outreach to the European Council, Parliament and Commission through the technical group on taxonomy composed by PGGM, RICS, CBI and BNP Paribas.</p>
<p><b>Dec 2018</b> EC published a public consultation on the taxonomy proposal.</p>	<p><b>Dec 2018 to Mar 2019</b></p> <ul style="list-style-type: none"> <li>• EPRA responded to the consultation (<a href="#">link 1</a> and <a href="#">link 2</a>).</li> <li>• Follow up outreach programmes targeting TEG’s members to discuss EPRA’s position.</li> </ul>

<p><b>Spring 2019 – upcoming</b> TEG to consolidate the Taxonomy proposal.</p> <ul style="list-style-type: none"> <li>• Mid-June: Final report on Taxonomy report.</li> <li>• End-June: Public workshop on the Taxonomy report.</li> </ul>	<p>EPRA to monitor future developments.</p>
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## LEVEL(S) *On going [non-binding initiative]*

Level(s) is a voluntary reporting framework to improve the sustainability of buildings. Using existing standards (LEED, BREEAM, DGMB,) Level(s) provides a common EU approach to the assessment of environmental performance of the built environment throughout the entire life cycle, including:

- products stage,
- construction,
- building operation,
- end of life.

The framework covers impacts such as Greenhouse gas (GHG) emissions, materials, water resources, health and comfort, adaptation and resilience to climate change, life-cycle costs and value.

The scheme is currently under a test phase for more than 100+ buildings, notably:

- Office and residential buildings
- New constructions and major renovations

The test phase is coordinated at the national level by different European Green Building Councils in France, Ireland, Italy, Denmark, Finland, Slovenia and Spain.

For more information you can visit [this page](#).



First results of the pilot phase have been presented in December 2018 and recently published in a [report](#) that discusses how Level(s) could support the move of sustainability thinking from a community of leaders to the mass market, and suggests a road map for that purpose.

The document gives some statistics about the tested projected and Level(s) impacts on companies' sustainability strategy.