

# Sustainability regulatory update – issue#3

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## EU STRATEGY ON SUSTAINABLE FINANCE *Upcoming*

After the [Interim report](#) in mid-July and then the follow-up [public consultation](#), the [HLG Group on Sustainable Finance](#) published its [final report](#) on 31<sup>st</sup> January.

As it was also suggested by EPRA through the public consultation, new elements included in the final report are:

- Where the interim report was focused on green, the final report encompasses wider issues of sustainability, notably the social dimension.
- As suggested by EPRA in its submission to the public consultation<sup>1</sup>, the HLEG identified the need for the EC to firstly focus on climate change mitigation goals and then move, in a second stage, to a broader environmental and social sustainability.
- The HLEG also identifies the sectors where the transition to sustainability is much needed: in addition to renewable energy generation and buildings, agriculture and marine resources, as they are directly linked to natural capital, represent the sectors where investments for the transition are highly needed.

The report includes a set of recommendations grouped into:

- **eight priority recommendations,**
- **cross-cutting actions,** and
- **additional actions** specific to financial institutions and other sectors of the financial system.

The HLG provided **eight priority recommendations** together with a set of follow-up actions to be pursued by the EC including:

1. Establish and maintain a common [sustainability taxonomy at the EU level](#);
2. Clarify investor duties to better embrace long-term horizon and ESG preferences;
3. [Upgrade disclosure rules to make ESG risks fully transparent, starting with climate change](#);
4. Key elements of a retail strategy on sustainable finance: investment advice, ecolabel and SRI minimum standards;
5. Develop and implement official European sustainability standards and labels, starting with [Green Bonds](#);
6. Establish ‘Sustainable Infrastructure Europe’;
7. Governance and leadership;
8. Include sustainability in the supervisory mandate of the ESAs and extend the horizon of risk monitoring.

You can access the contents of the [eight priority recommendations at pp 4-15 of the SUMMARY prepared by EPRA](#).

The **cross-cutting actions** include:

- Addressing short-termism in finance, including the role of indices and benchmarks;
- Empower citizens to engage and connect with sustainable finance issues;
- Establishing a EU observatory on sustainable finance to track progress on sustainable finance;
- Update benchmark guidance and regulations to ensure that they take account of sustainability issues;

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<sup>1</sup> See Q2 of [EPRA Response to the Questionnaire by the HLG on Sustainable Finance](#)

- Investigating alternative accounting approaches to current practices for long-term investment portfolios;
- Examining the impact of energy efficiency on underlying asset values and financial risk management;
- Apply the ‘Think Sustainability First’ principle to all key investor and financial legislation in both ex ante impact assessments and ex post evaluations (for example, Solvency II, IORP II, UCITS, AIFMD, MiFID II/MiFIR, PEPP).
- Developing ‘Sustainable Finance Compacts’ with key countries to promote sustainable finance policy reform at the international level.

You can access the contents of the [cross-cutting recommendations at pp 16-22 of the SUMMARY prepared by EPRA](#).

### Public consultation on the investors’ duties regarding sustainability

As part of the EU’s efforts to develop a comprehensive strategy on sustainable finance, in November 2017 the European Commission launched a public consultation to clarify the duties of institutional investors and asset managers in terms of how sustainability could contribute to a more efficient allocation of capital, and to sustainable and inclusive growth.

EPRA with the support of the EPRA Sustainability Committee Members responded to the consultation. You can access EPRA’s response [here](#).

### 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 HLEG 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 pager with very specific and pragmatic recommendations to share with the High-Level Group. 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 public consultation (<a href="#">link</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 follow-up actions tailored to the following recommendations:</p> <ul style="list-style-type: none"> <li>• Sustainability taxonomy <ul style="list-style-type: none"> <li>○ A1 - EPRA to apply to participate in the Working Committee on sustainability taxonomy</li> <li>○ A2 - Respond to the public consultation conducted by the Working Committee</li> </ul> </li> <li>• Non-Financial Reporting Directive update in line with the TCFD <ul style="list-style-type: none"> <li>○ A1 - Explore engagement with UNEP FI Property Working Group</li> <li>○ A2 - Engage with DG FISMA regarding the NFRD and opportunity to take part to the financial sector-specific technical working group.</li> </ul> </li> <li>• EU Green Bonds <ul style="list-style-type: none"> <li>○ A1 - Explore potential interest of Sustainability Committee Members in taking part to the Green Bonds Technical Committee</li> <li>○ A2 - Explore potential collaboration with Vigeo Eiris to ensure ‘green &amp; social bonds’ issued by listed property companies can be eligible as EU Green Bond.</li> </ul> </li> </ul> <p><b>THE ACTIONS NEED TO BE EVALUATED AND APPROVED BY THIS COMMITTEE.</b></p>
<p><b>Mid- March 2018</b> EC to set an action plan based on the HLG’s outcomes. The plan will be presented during a public hearing on 22<sup>nd</sup> March 2018.</p>	<p><b>March, 6</b> <a href="#">ZIA’s Dialogue on Sustainable Finance</a> in Brussels. Olivier Elamine, EPRA Sustainability Committee chair, will be participating as panellist.</p>
<p><b>May 2018</b> EC to publish a legislative proposal on Investors’ duties.</p>	<p><b>Next steps:</b> EPRA will review the proposal and discuss next steps in the Committee.</p>

## ENERGY PERFORMANCE OF BUILDINGS DIRECTIVE (EPBD) *Under review - to be adopted in Q2/2018*

As part of the 'Clean Energy for all European' launched in December 2016, the Commission proposed an [update](#) to the Energy Performance of Buildings Directive. One year after, in December 2017, [a provisional political agreement on new rules for improving the energy performance of buildings](#) was reached. The main outcomes of the revision are:

- Stronger long-term renovation strategies for Member States, aiming at decarbonisation by 2050 and with a solid financial component;
- A Smart Readiness Indicator for buildings;
- Targeted support to e-mobility infrastructure deployment in buildings' car parks;
- Reinforcement of building automation: additional requirements on room temperature level controls, building automation and controls and enhanced consideration of typical operating conditions.

For a complete view on the key provisions part of the revision, you can access the [SUMMARY prepared by EPRA](#).

### EPRA's engagement

In June 2017, EPRA provided feedback to the Members of the European Parliament (MEPs) on the proposal of review ([link](#)). EPRA endorsed the draft REPORT of Mr. Bendt Bendtsen and provided additional suggestions on how to increase investments in energy efficiency in buildings. EPRA's amendment to article 8 paragraph 6 has been welcomed by Mr. Bendt Bendtsen, officially included among the ones suggested by the relevant stakeholders ([link](#)) and then in the final [provisional political agreement](#).

### Timeline

- In the coming months (April/May 2018<sup>2</sup>) the updated Energy Performance of Buildings Directive will be published in the Official Journal of the Union and will enter into force 20 days after publication.
- Member States will have to transpose the new elements of the Directive into national law by 20 months following the date of entry into force, at latest (June/July 2020<sup>3</sup>).

### Follow-up actions

In partnership with JLL and FTI Consulting, EPRA will be organizing a series of breakfasts in different regional markets (Brussels, London, Frankfurt) to discuss in which way real estate sector could help deliver EPBD targets and the main challenges associated to it.

The first breakfast will take place in Brussels on 3<sup>rd</sup> May 2018. More info to come.

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<sup>2</sup> Indicative dates

<sup>3</sup> Indicative dates