

## Comments of the European Mortgage Federation-European Covered Bond Council (EMF-ECBC) on the Draft Report of the Platform on Sustainable Finance on activities and technical screening criteria to be updated or included in the EU Taxonomy

European Mortgage Federation-European Covered Bond Council (EMF-ECBC)

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### General remarks

The European Mortgage Federation-European Covered Bond Council (EMF-ECBC) welcomes the efforts of the Platform on Sustainable Finance (PSF) in advancing climate mitigation and adaptation goals. We recognise the crucial role of the building sector in achieving the EU's climate targets. However, since the EU Taxonomy and delegated acts came into force, their practical application in property financing and refinancing has been limited. We fully support the PSF's assertion that *"significant efforts should be invested into making the Taxonomy easily applicable to financial products, instruments, and mortgages<sup>1</sup>."*

### Taxonomy-specific remarks

#### 1. The binary nature of the EU Taxonomy & link to EUGBS

The current binary classification system means that failure to meet a single criterion results in an activity being classified as non-aligned with the Taxonomy. This approach disregards partial sustainability progress and discourages participation. Indeed, generally-speaking, reporting requirements should carefully balance costs and benefits with a view to securing tangible incentives for financial market participants. We advocate for a shift towards a weighted scoring system that prioritises climate impact while allowing for a more nuanced assessment.

Furthermore, once an asset is deemed Taxonomy-aligned, this classification should remain valid for the duration of the asset's or loan's lifecycle, and these assets should not be subject to future alignment review.

#### 2. Entry Standards too High

The Taxonomy currently sets high entry standards and offers hardly any incentives to renovate and acquire buildings with particularly poor energy performance. This results in low adoption rates and inefficient resource allocation. We support the PSF's recommendation to harmonise the targets of the Energy Performance of Buildings Directive (EPBD) with the Taxonomy. However, the assumption that the Taxonomy should be more ambitious than the EPBD<sup>2</sup> undermines harmonisation efforts and usability.

#### 3. Complexity of technical screening criteria and data availability

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<sup>1</sup> PSF report, page 92

<sup>2</sup> PSF report, page 89

The PSF rightly notes that data required to meet the Do No Significant Harm (DNSH) criteria are often unavailable, creating practical barriers to compliance. We would therefore like to highlight the importance of the following:

- Simplification of technical screening criteria, particularly for new construction (7.1) and renovation (7.2), with a focus on key decarbonisation measures.
- Standardised legal requirements across the EU to address data gaps in the real economy.
- The rapid establishment of barrier-free databases to facilitate data collection and reporting.<sup>3</sup>

We would also like to take this opportunity to highlight that climate risk assessment and management methods should align with ISO 14090 and ISO 14091 standards.

#### 4. Lack of proportionality

A key example of a disproportionate burden is the renovation of owner-occupied housing, where Taxonomy compliance is often economically unfeasible. The PSF rightly highlights that renovation projects face the same DNSH criteria as large-scale constructions<sup>4</sup>, creating unnecessary reporting burdens. We recommend embedding proportionality into the Taxonomy to ensure that renovation loans for owner-occupied housing face fewer bureaucratic hurdles.

### Specific comments and proposals on the building criteria

#### 1. New construction

We acknowledge the recommendation from the PSF to update the TSC to take account of the 2024 EPBD Recast and specifically the replacement of NZEB with ZEB. A key question is exactly how the TSC will be adapted to the ZEB requirement and a potential new performance level. Indeed, the potential for even stricter requirements for new construction should be carefully considered in light of rising construction costs and housing shortages across Europe.

#### 2. Renovation of existing buildings

The Taxonomy currently requires the separation of efficiency gains based on renewable energy sources from those that are achieved elsewhere and therefore need to be taken into account. This separation is extremely time-consuming, if possible at all. Additionally, demonstrating efficiency gains is often only feasible post-financing (e.g., via an EPC before and after renovation). However, for Taxonomy-aligned financing of a renovation, the evidence would have to be provided at the same time as the financing application.

Since financing structures do not always follow activity-based logic, we propose that:

- Efficiency gains from renewable sources be taken into account for renovations by amending footnote 299 of Commission Delegated Regulation (EU) 2021/2139<sup>5</sup> accordingly.

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<sup>3</sup> PSF report, page 93, Recommendations outside the Climate Delegated Act: “Allow investors, lenders, and certifying bodies to have direct access to EPC databases and develop an EU-wide framework of unique identifiers, e.g., based on geo coordinates, such that lenders are in a position to conduct automated checks to identify when EPC or updated EPC are available.”

<sup>4</sup> PSF report, page 97, recommendations, Point 2: “Facilitate compliance for residential renovations, particularly for renovations of buildings under a certain size – to ease reporting for financial institutions and energy service companies”

<sup>5</sup> “[...] The 30 % improvement results from an actual reduction in primary energy demand (where the reductions in net primary energy demand through renewable energy sources are not taken into account), and can be achieved through a succession of measures within a maximum of three years”.

- Loans covering bundled renovation measures (e.g., PV installation and insulation) be treated as a single green financing entity.

### 3. Interaction between 'Renovation of existing buildings' and 'Acquisition and ownership of buildings'

Renovation is often financed as part of building acquisition loans. However, if post-renovation efficiency improvements fail to meet the strict Taxonomy criteria (e.g., achieving EPC class A or ranking in the top 15% of the building stock), the entire loan is deemed non-compliant. This issue has been acknowledged by the PSF<sup>6</sup>. To address this, we propose:

- Allowing the entire loan (not just the renovation portion) to be classified as “green” if the renovation meets Taxonomy criteria.
- Reducing screening criteria (in particular DNSH) to focus on key decarbonisation measures and simplifying verification.
- Allowing transitional green status for buildings on a defined decarbonisation pathway<sup>7</sup>.

### 4. Acquisition and ownership of buildings

We reiterate our support for the measures that would enhance the applicability of the Taxonomy and support the broader goal of building stock decarbonisation. Additionally, we welcome the PSF's recommendation to allow proxy solutions for documenting Taxonomy compliance, given current data limitations<sup>8</sup>.

Moreover, ensuring comparability of Energy Performance Certificates (EPC) and energy efficiency classes across the EU is essential to improve data consistency and usability across Member States.

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<sup>6</sup> PSF report, page 89, Renovation to acquisition and ownership: “However, in most jurisdictions the renovation criteria for a “major renovation”, or 30% energy reduction outside of the EU, does not result in the building reaching energy performance level of EPC A. However, EPC A is the required threshold to acquire or own an EU Taxonomy aligned building before December 2020. Ebd. page 97, point 3, Recommendations for future developments: “Instigate: a. the reporting imbalance of mortgage / loan ratios of renovation compared to new construction and ensure that sustainable finance for renovation is not disincentivised b. the Taxonomy-compliance of the loan / mortgage when the owner uses blended finance”

<sup>7</sup> This would also be in line with the PSF's idea of introducing decarbonisation paths in the ‘Acquisition and ownership of buildings’ activity, see PSF report, page 99.

<sup>8</sup> PSF report, page 99, point 1: “Allow proxies to demonstrate compliance with the TSC, with the requirement to label proxied data as such”