REGULATORY & SUPERVISORY LANDSCAPE FOR EEM

9th EEMI Bauhaus

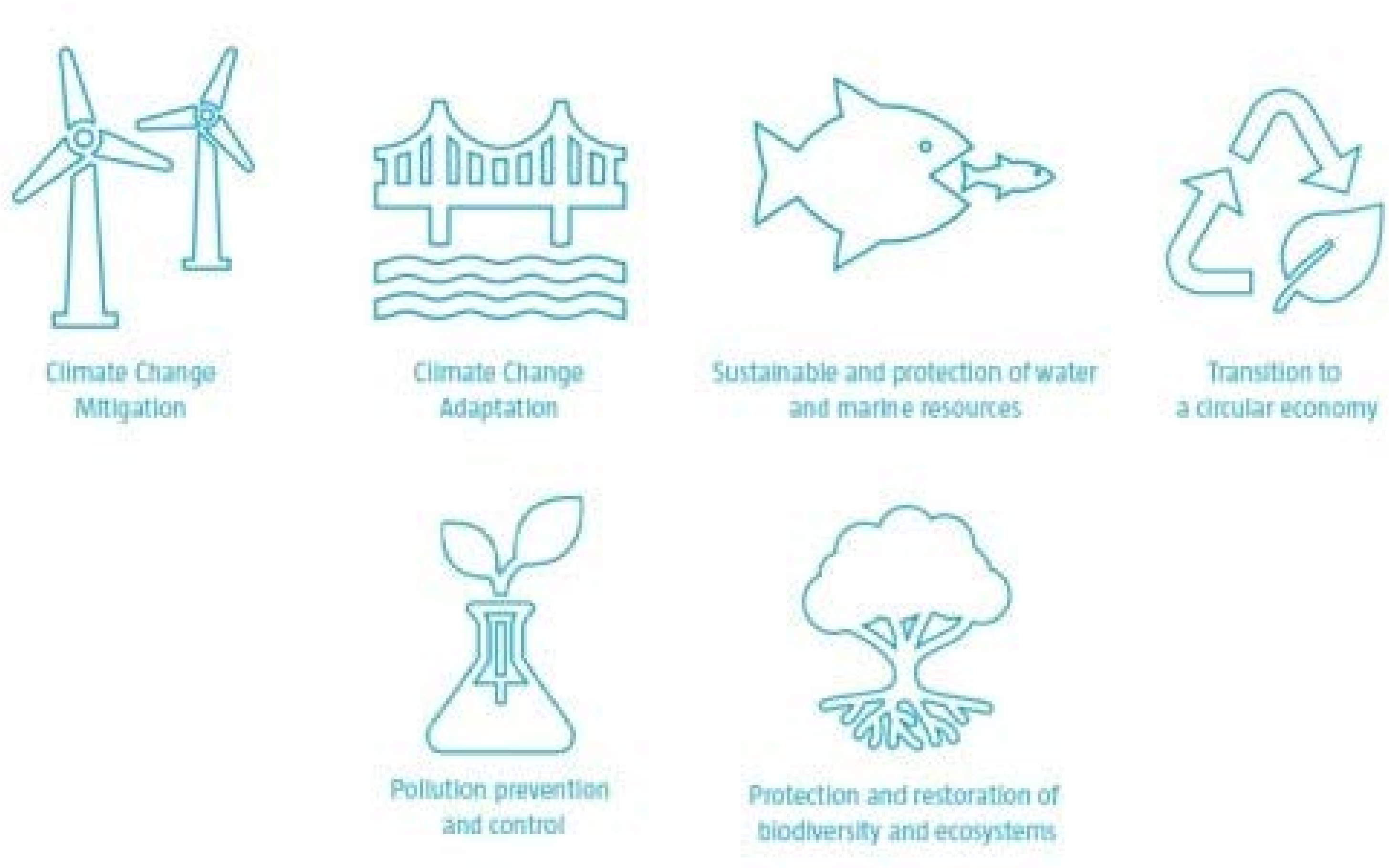
23 November 2021

EMF | ECBC
EUROPEAN MORTGAGE FEDERATION
EUROPEAN COVERED BOND COUNCIL

EU Taxonomy: In a Nutshell

Definition	A harmonised classification system identifying economic activities that deliver on EU sustainability goals
Scope	Environmental taxonomy, but work currently underway to extend to social objectives
Key features	Granular enough to minimise ambiguity about "greenness" of an activity and flexible enough to cater to technological and market developments
Stakeholders	It will be built on existing initiatives and developed gradually with input from scientific, technical and financial experts
Benefits	Common language for financial markets and avoid market fragmentation. A basis for transparency and further policy action (e.g labelling schemes, green standards, etc.)

EU Taxonomy: 6 Environmental Objectives



Source: Robeco

EU Taxonomy: Impact on banks

- Activity-level focus & granularity in reporting => significant departure from existing ESG reporting practices

- Will have far reaching consequences for financial institutions requiring extensive preparations for implementation & longer-term strategic reviews to alignment

- In short term, financial institutions will need to:
  1. assess their activities to identify those within scope
  2. understand what is required for compliance
  3. identify the data requirements for each type of activity,
  4. develop roadmaps to close gaps & plan and operationalise reporting

EU Taxonomy: Impact for Banks of TSC

Reference	Economic Activity	Technical Screen Criteria	Footnote	Interpretation
7.1	*Construction of New Buildings*	The Primary Energy Demand (PED), defining the energy performance of the building resulting from the construction, is at least **10 % lower than the threshold set for the nearly zero-energy building (NZEB) requirements in national measures** implementing Directive 2010/31/EU of the European Parliament and of the Council. The energy performance is certified using an as built Energy Performance Certificate (EPC).	PED = The calculated amount of energy needed to meet the energy demand associated with the typical uses of a building expressed by a numeric indicator of total primary energy use in kWh/m2 per year and based on the relevant national calculation methodology and as displayed on the Energy Performance Certificate (EPC).	
7.2	*Renovation of Existing Buildings*	The building renovation complies with the applicable requirements for major renovations. Alternatively, it leads to a reduction of primary energy demand (PED) of at least 30 %.	As set in the applicable national and regional building regulations for 'major renovation' implementing Directive 2010/31/EU. The energy performance of the building or the renovated part that is upgraded meets cost-optimal minimum energy performance requirements in accordance with the respective directive. The initial primary energy demand and the estimated improvement is **based on a detailed building survey**, an **energy audit conducted by an accredited independent expert** or any other transparent and proportionate method, and **validated through an Energy Performance Certificate.** 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.	'major renovation' means the renovation of a building where: (a) the total cost of the renovation relating to the building envelope or the technical building systems is higher than 25 % of the value of the building, excluding the value of the land upon which the building is situated; or (b) more than 25 % of the surface of the building envelope undergoes renovation; Member States may choose to apply option (a) or (b).
7.7	*Acquisition and ownership of buildings*	1. For buildings built before 31 December 2020, the building has at least an Energy Performance Certificate (EPC) **class A.** As an alternative, **the building is within the top 15% of the national or regional building stock expressed as operational Primary Energy Demand (PED)** and demonstrated by adequate evidence, which at least compares the performance of the relevant asset to the performance of the national or regional stock built before 31 December 2020 and at least distinguishes between residential and non-residential buildings. 2. For buildings built after 31 December 2020, the building meets the criteria specified in Section 7.1 of this Annex that are relevant at the time of the acquisition.		

EU Taxonomy: Basis for further Policy Actions

- Significant implications for existing and future pieces of legislation, including:
  - **Non-Financial Reporting Directive** (NFRD)
  - **Sustainable Finance Disclosure Regulation** (SFDR)

- Ongoing EU policy initiatives will link standards and labels to Taxonomy aligned economic activities=> **EU Ecolabel criteria for financial products**

- **Green Asset Ratio** to be main KPI for disclosure of information on how and to what extent activities qualify as Taxonomy compliant

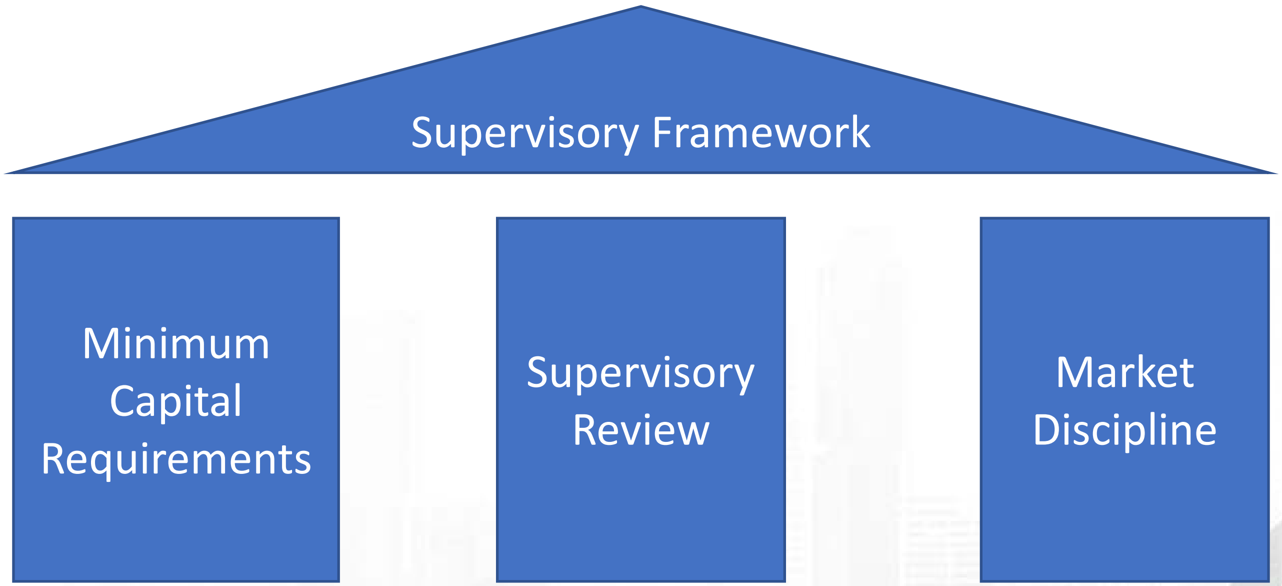
Broader regulatory landscape relevant for EEM

- Renewed Sustainable Finance Strategy:
  - Definition of ‘green mortgage’
  - Review of Mortgage Credit Directive
- EU Green Bond Standard
- EBA Recommendations on ESG Risks Management & Supervision in Pilar 2
- EBA ITS on Pillar 3 disclosure of ESG risks
- EBA assessment of dedicated prudential treatment for ESG related assets

- **ECB Guide on Climate-related & Environmental Risks:**
  - Supervisory expectations 7 & 8 require banks to consider climate-related & environmental risks at all relevant stages of credit-granting process
- **ECB Monetary Policy Strategy:**
  - Disclosures as a requirement for eligibility as collateral & asset purchases
  - Enhancement of risk assessment capabilities
  - Collateral framework
  - Corporate sector asset purchases

Key takeaways

- No part of a bank's activities will remain untouched by SF agenda
- However, most significant impacts => material impact on 3 pillars of supervisory framework:



- Vital that banks are already taking necessary steps to understand implications & plan implementation

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