

10 May 2021

INREV* welcomes the opportunity to provide comments to the joint consultation on Taxonomy-related Sustainability Disclosure.

Questions to Stakeholders

50. There are a number of measures contained in the draft RTS where the ESAs would like feedback from stakeholders. The following specific questions and accompanying explanatory text highlight these measures. All references are to the draft RTS within the Consultation Paper.

- 1. Do you have any views regarding the ESAs' proposed approach to amend the existing SFDR RTS instead of drafting a new set of draft RTS?**

INREV supports the proposed approach as it aims to have the RTS function as a "single rulebook" for sustainability disclosures for both the Sustainable Finance Disclosure Regulation (SFDR) and for the Taxonomy Regulation (TR). SFDR and TR are closely linked to each other, and we support initiatives taken to ensure alignment between these two regulations and provide harmonised set of disclosure rules.

As it is stated in the consultation paper, the amendments are targeted at Article 8 and 9 products under the SFDR, only for the environmental taxonomy related disclosure (i.e. 6 objectives of Article 9 in TR). We recommend ESAs to further clarify its intention to have same approach for the remaining disclosure topics (i.e. social and governance aspects).

- 2. Do you have any views on the KPI for the disclosure of the extent to which investments are aligned with the taxonomy, which is based on the share of the taxonomy-aligned turnover, capital expenditure or operational expenditure of all underlying non-financial investee companies? Do you agree with that the same approach should apply to all investments made by a given financial product?**

We are substantially in agreement with the idea of having financial KPIs (i.e. turnover, capital expenditure or operational expenditure) for the disclosure of the extent to which investments are aligned with the TR. However, having only financial KPIs might be misleading for measuring environmental impact due to the possible valuation fluctuations. Depending on the valuation, the financial value might differ while having the same environmental impact. Especially for real estate investments, we support having additional KPIs based on intensities (e.g. area based energy intensity calculations).

In addition, it needs to be clarified whether the financial KPIs proposed with the amendment will replace the calculation methodology provided in Annex -1 of final draft RTS (released in February 2021) which is based on "current value of the investment".

On another note, we suggest considering "current value of the investment" at time of measurement, because it might be affected by the period of the calculation.

- 3. Do you have any views on the benefits and drawbacks of including specifically operational expenditure of underlying non-financial investee companies as one of the possible ways to calculate the KPI referred to in question 2?**

No response

- 4. The proposed KPI includes equity and debt instruments issued by financial and non-financial undertakings and real estate assets, do you agree that this could also be extended to derivatives such as contracts for differences?**

No response

- 5. Is the use of "equities" and "debt instruments" sufficiently clear to capture relevant**

instruments issued by investee companies? If not, how could that be clarified? Are any specific valuation criteria necessary to ensure that the disclosures are comparable?

It is important to take into account the real estate sector specificities (investments and structures), either by providing examples for real estate funds or by embedding these real estate sector specificities into the general framework and, above all, by defining more precisely the reporting scope.

6. Do you have any views about including all investments, including sovereign bonds and other assets that cannot be assessed for taxonomy-alignment, of the financial product in the denominator for the KPI?

In the consultation paper, the examples for weighted average taxonomy-aligned activity contribution of investments are given for green bonds under the future EU Green Bond Standard and for non-financial undertaking investee companies reporting under the Non-Financial Reporting Directive (NFRD). This reads as if the amendments are not applicable to the investments which are not under NFRD or not a green bond. We suggest ESAs clarify the scope of the application of TR alignment calculations.

The terminology used needs to be also clarified and harmonised. SFDR defines its scope with Financial Market Participants and Financial Advisors. The amendment introduces new concepts to the SFDR RTS, such as financial and non-financial undertakings.

7. Do you have any views on the statement of taxonomy compliance of the activities the financial product invests in and whether those statements should be subject to assessment by external or third parties?

We support having a third party assurance or “proof” of any statement of EU Taxonomy compliance to ensure reliability and transparency in disclosure.

From a real estate perspective, we suggest this to be at voluntary basis. Given current market practices and existing frameworks we could imagine various options and examples at the following levels:

- Property/Asset Level: Assurance can be given by third party providers such as, rating agencies, external consultants or providers including external valuers and green label certifiers (e.g. climate value at risk measures, usage based and intensity measures/ KPIs, green building certifications/ labels, EPCs etc.)*
- Fund Level: Assurance can be given by third party providers such as, auditors, valuation agents, ESG consultants. We also recommend considering fund level sustainability labels for third party assurance.*
- Entity Level (i.e. Financial Market Participants and Financial Advisors): Assurance can be given by third party providers such as, consultants, auditors, other external providers including rating agencies or other external assurance for good governance (UN PRI, GRI etc.)*

As an example, GRESB (Global ESG Benchmark for Real Estate Industry) defines third party assurance options in its assessment framework. See <https://gresb.com/>

8. Do you have any views on the proposed periodic disclosures which mirror the proposals for pre-contractual amendments?

We support having the same template.

9. Do you have any views on the amended pre-contractual and periodic templates?

In the illustrative template provided by the consultation paper, we see two more sub-categories added under for both Article 8 and 9 products under the SFDR. Our understanding is that it is proposed to divide Article 8 SFDR and Article 9 SFDR products into two sub categories; 1) TR compliant, non TR compliant. It needs to be clarified that how non TR aligned Article 8 SFDR and Article 9 SFDR products will be identified: is it only for the ones that are not in the scope of TR, or is it possible to

have a non TR aligned product classified as Article 8 SFDR and Article 9 SFDR, even if it is related to environmental taxonomy related disclosure.

In addition, checking the boxes might misrepresent the overall view of the portfolio. We recommend adding percentage of the assets (based on value as it is suggested in the consultation paper) in the templates.

10. **The draft RTS propose unified pre-contractual and periodic templates applicable to all Article 8 and 9 SFDR products (including Article 5 and 6 TR products which are a subset of Article 8 and 9 SFDR products). Do you believe it would be preferable to have separate pre-contractual and periodic templates for Article 5-6 TR products, instead of using the same template for all Article 8-9 SFDR products?**

We support having the same template.

11. **The draft RTS propose in the amended templates to identify whether products making sustainable investments do so according to the EU taxonomy. While this is done to clearly indicate whether Article 5 and 6 TR products (that make sustainable investments with environmental objectives) use the taxonomy, arguably this would have the effect of requiring Article 8 and 9 SFDR products making sustainable investments with social objectives to indicate that too. Do you agree with this proposal?**

No response

Preliminary impact assessments

51. The ESAs have provided preliminary impact assessments for the empowerments under Articles 8(4), 9(6) and 11(5) SFDR.

12. **Do you have any views regarding the preliminary impact assessments? Can you provide more granular examples of costs associated with the policy options?**

The final draft RTS under SFDR provides indicators applicable to real estate investments. We would like to take this opportunity to provide feedback on these indicators.

- *The first mandatory indicator for real estate investments is “exposure to fossil fuels”. The ESAs needs to clarify this indicator in the context of real estate investments. Examples could vary for different context, such as, fossil fuel exposure could be related to:*
 - *investment linked to extraction, processing or use of various fuels, or (this is how it is mentioned in the indicator.)*
 - *energy consumption of the investments originated from fossil fuels, or*
 - *real estate tenants with a business line linked to extraction, processing or use of various fuels, etc.*
- *Exposure to fossil fuels through investments and real estate tenants could be considered as a rare cases, not material to real estate investments. Traditionally, real estate investments have been powered by fossil fuel-dependent heating and ventilation systems. It is estimated that the building and construction sector produced [39] percent of energy and process-related carbon emissions globally. Therefore, carbon disclosure should be considered as one of the material topics for real estate industry, hence “Carbon emissions” and “Carbon intensity” are relevant indicators. However, “share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels” is not material to real estate investments as it does not apply to the main investment scope. On the other hand, carbon disclosure at individual asset/property level would be more significant for real estate industry.*
- *Our understanding is that real estate investments will be subject to only real estate specific indicators (2 mandatory indicators in Annex 1-Table 1 and 5 opt in indicators in Annex 1-Table*

2), but not to universal mandatory and opt in indicators. To avoid confusion in the industry, we recommend ESAs to clarify whether real estate industry will be subject only to the indicators specific to real estate investments or all indicators defined under Annex-1.

- *If the separate indicators for impacts from investments in real estate assets will be considered as the only indicators for real estate industry, the obligations for indirect real estate investments needs to be clarified, i.e. does the real estate indicators apply to both direct investments and indirect investments, or does the universal mandatory indicators apply to indirect real estate investments at underlying asset holding level?*
- *It is proposed that additional opt-in indicators for environmental and social factors should be included in the disclosure. However, when we look at the real estate specific indicators, both mandatory and additional indicators, we see they are all related to environmental factors (i.e. GHG emissions, energy consumption intensity, waste production, biodiversity). The mandatory and additional real estate specific indicators do not include topics on social and governance aspects. It needs to be clarified whether real estate industry is required to make additional disclosure for only 1 environmental indicator or 2, instead of having 1 environmental and 1 social indicator.*
- *SFDR RTS and TR technical screening criteria suggest that EPCs are the only alternative for energy performance certification. They should also allow the use of other alternative energy schemes, such as voluntary rating schemes which are widely accepted by market participants and are internationally recognised. It might be the case that the assets are registered in locations (inside or outside the EU) where EPC is not available. We recommend adding other energy consumption and intensity measures in the technical screening criteria as an alternative to EPCs (e.g. Energy Star label as part of the GBCI's LEED certification). Considering the EU's diverse EPC regimes (since they have been implanted into varying national laws on country level), well-adopted energy certificates/labels could allow comparison of energy performance.*
- *The "inefficient real estate assets" formula provided in the draft RTS under SFDR (published in February 2021) needs to be elaborated. How will this formula be considered for the assets that do not use EPC / NZEB measurements? What happens to development that are completed after 31/12/2020 but do not have NZEB as the development did not exist when the building was designed? Does the definition for inefficient assets require an effective date for EPC, i.e. is it possible to use an EPC older than its effective period?*
- *We would like to highlight that there is lack of harmonisation and comparability of existing certification schemes and energy ratings across EU member states. Without reaching some degree of harmonisation among certifications and ratings, it is difficult to measure and compare the contribution to climate change mitigation or adaptation. We encourage the EU to ensure harmonisation of certification frameworks across member states to enable peer to peer comparison. We recommend existing robust frameworks be used rather than creating another framework to be complied with.*
- *As a general note, we suggest considering the Carbon Risk Real Estate Monitor (CRREM) decarbonisation pathways and risk assessment tool to develop technical screening criteria for the real estate industry. (CRREM: EU funded research and innovation programme for real estate industry - <https://www.crrem.eu/>).*

*INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. We provide guidance, research and information related to the development and harmonisation of professional standards, reporting guidelines and corporate governance within the non-listed property funds industry across Europe. INREV currently has 461 members. Our member base includes institutional investors from around the globe including pension funds, insurance companies and sovereign wealth funds, as well as investment banks, fund managers, fund of funds managers and advisors representing all facets of investing into non-listed real



estate vehicles in the UK and the rest of Europe. Our fund manager members manage more than 500 non-listed real estate investment funds, as well as joint ventures, club deals and separate accounts for institutional investors.