Frankfurt,
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BVI's response to the draft report on activities and technical screening criteria to be updated or included in the EU Taxonomy by the EU Platform on Sustainable Finance

BVI[1] welcomes the opportunity to contribute to the EU Platform's work on technical evolution of the EU Taxonomy. Our remarks focus on the draft recommendations for real estate activities, in particular the activity 7.7 "acquisition and ownership of buildings". While sharing many findings of the draft report, we see the need for further improvements in the following areas:

1. The bar for Taxonomy-alignment of real estate is currently far too high

The EU-Taxonomy exclusively privileges buildings with the highest energy efficiency, resulting in capital being directed primarily towards already well renovated buildings. This approach stigmatizes buildings with poor energy efficiency that can be redeveloped and undermines the objective of reducing GHG emissions that are much higher for new construction than renovation.

Only renovation work that reduces the primary energy demand of buildings by at least 30% is considered Taxonomy-aligned and can only be reported as such in terms of relevant investments. The building as such, despite significant PED savings, cannot be considered Taxonomy-aligned. Measures with lower savings may have higher financing costs in the future due to the stigmatisation of non-Taxonomy-aligned investments. The same applies to buildings that are on a long-term transformation path toward climate neutrality, but currently have poor energy efficiency ratings. Additionally, in the EU, efficiency gains from the use of renewable energy cannot be considered for renovations under the Taxonomy framework.

We advocate for all renovation measures that achieve energy savings in accordance with a science-based transition pathway to be recognized as Taxonomy-aligned, taking into account efficiency gains from the use of renewable energies. Furthermore, we argue that, unlike the current approach, the entire building and its entire financing should be considered Taxonomy-aligned if the Taxonomy requirements for an energy-efficient renovation are met.

The best way forward would be in our view to expand the economic activity "7.7 acquisition and ownership of buildings" by including criteria for Taxonomy-aligned renovation/redevelopment of the existing building stock. Such criteria could include demolition limitations and energy efficiency improvement requirements, as suggested in the draft PSF report. Consistency with the EPBD approach (cf. below) and references to science-based transition pathways should be sought.

[1] BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Asset managers act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's 115 members manage assets of EUR 4.4 trillion for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 27%, Germany represents the largest fund market in the EU. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.

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2. Further comments on PSF recommendations for activity 7.7 “acquisition and ownership of buildings”

- **Reclassify as a transitional activity:** We do not consider a reclassification to a “transitional activity” to be appropriate. Buildings with EPC class A representing the highest energy efficiency should not be deemed a transitional solution. Only if the criteria under 7.7 were to be expanded to include renovation/redevelopment of older buildings, classification as transitional might be considered (cf. our suggestions above). If pathway requirements are added, they should focus on CO2 emissions and consider the use of renewable energies.

- **Review building-specific DNSH criteria and simplify reporting requirements:** The testing procedures for climate-related hazards are so time-consuming and documentation-intensive that the cost-benefit ratio is far from appropriate. In our view, the requirements for all criteria should be significantly reduced. It would be advisable to declare the DNSH-criteria as a whole as “monitoring criteria”, so that non-compliance with an individual requirement does not automatically lead to the Taxonomy-alignment being denied.

- **Incorporate real annual energy performance measurement:** Unfortunately, this idea is technically not feasible. Total consumption cannot be shown due to missing data from tenants. Tenants would need to be legally obliged to provide data. The data timelag must also be taken into account: consumption data cannot be provided on an annual basis. For example, in 2024, data from 2022 is available. In addition, numerous other variables would have to be defined in order to create comparability or a frame of reference: heat, cold, electricity, adjustment for weather, vacancy, type of use (e.g. data centers, canteen), final energy or primary energy, type of energy (green or brown), generation on site, etc.

  Current certification systems do not reflect current energy consumption. NABERS is voluntary, has poor coverage (few buildings are certified) and is not transparent with regard to energy consumption. Energy Star can only be used to identify Taxonomy-compliant buildings in the USA using the logic of the top-15-stock. However, not all buildings are included here either (no obligation, as it is voluntary) or it is not applicable to all buildings and differentiation below the top 15 / "EPC A" is not possible because there are no limit values for letter logic B-H. In addition, there is no Energy Star Award below 75; these buildings would fall outside the grid.

- **Align EU Taxonomy definitions and criteria and the SFDR PAI indicators, and specifically the definition of an energy-inefficient property:** The understanding of what is inefficient real estate needs urgent harmonisation between the frameworks. The ESAs proposed adapting the SFDR definition for the relevant PAI indicator 14 (Annex I, Table 1 to SFDR DR) to the DNSH thresholds for climate change mitigation, meaning that buildings with EPC class of D and below would be considered inefficient. We support this proposal that needs to be implemented under the SFDR framework.

- **Evaluate the purpose of the economic activity and its substantial contribution criteria and consider changing the criteria for portfolio assessment, or alternatively, add portfolio-level criteria:** Chapter 7.7 assesses the current state of the buildings. Possible renovation/redevelopment of the existing building stock is not currently considered, but should be accounted for in future (see our suggestions above).

Notwithstanding this much needed development, the criteria under 7.7 should relate to the assessment of individual properties. Sustainability criteria at the portfolio level are to be discussed as part of product classification rules under the SFDR review. While such portfolio-level criteria could in some instances build upon and reference to the EU Taxonomy, activity-level and product-related requirements should be kept separate.

- **Develop decarbonisation pathways:** Such development is not necessary. CRREM is an established standard in the real estate industry.[2]

  Developing decarbonization pathways with the specifications mentioned in the draft PSF report is not convincing; the issue is how to keep global warming at a minimum level, at best below 1.5 degrees. This must be the basis on which the national budgets for GHG emissions should be distributed until 2050. This is precisely the approach chosen by CRREM and, in our opinion, it is the right way forward. Different building types are also taken into account here.

3. Allow for the use of proxies

Green building certificates for buildings in the EU are not a viable alternative as proxies for Taxonomy-alignment. There are different certification systems nationally and in different countries, they have different priorities and are therefore not comparable with each other. Argumentatively, we would have the same situation as with the EPCs - therefore it cannot be a replacement measure. The EU Buildings Directive EPBD already requires harmonization of the EPCs for the first half of 2026, meaning that a workaround with proxies is not necessary.

Another point is that climate change mitigation focuses on reducing GHG emissions and energy efficiency, which is reflected in the EPCs or the annual energy performance. With the Green Building Certificates, climate pathways and transition towards carbon neutrality and Paris alignment are not generally relevant. In addition, social and/or governance factors are taken into account with different methodologies.

On the other hand, the use of certificates that assess the energy performance of the building can be useful in relation to countries outside of the EU that do not have a comparable EPC-system. A list of accepted certification systems, including the quality levels, would be helpful in this respect. Therefore we support the approach to work with the International Platform for Sustainable Finance (IPFS) and/or national jurisdictions and/or Green Building Councils to create a list of “EPCs” international equivalences by mapping the quality and the level of implementation of energy efficiency and green buildings labelling schemes outside of the EU.

4. Update EPBD cross references

While the requirements of the EU Taxonomy are aimed almost exclusively at the final state of climate neutrality, the focus of the EU Buildings Directive EPDB is on improvements to the buildings with the currently worst energy efficiency. From the practicability perspective, pursuing two completely different

[2] CRREM aims at developing a tool that allows investors and property owners to assess the exposition of their assets to stranding risks based on energy and emission data and the analysis of regulatory requirements and to set science-based carbon reduction pathways (more on CRREM Project).

regulatory approaches in two major pieces of EU legislation for the real estate sector makes no sense and overall, delays the implementation of measures to improve energy efficiency.

We believe that the EPDB's focus on redevelopment of the worst buildings in terms of energy efficiency is more relevant in terms of avoiding GHG emissions and should be favoured over construction of new highly efficient buildings in the EU Taxonomy. Efficiency gains in the renovation of buildings with poor energy efficiency are significantly higher and faster to achieve than in buildings that already have good energy efficiency. It would make sense to align the EU frameworks so that a worst-first approach applies uniformly in future.

5. Reflect changes of EPBD recast in EU Taxonomy: Replace “major renovation” with the definition of a “deep renovation”

Harmonization is desirable, as there are different demands between 30% savings and the requirements of EPBD. However, problems with the activity 7.2 relate more substantially to the lack of recognition of the renovated property as such being Taxonomy-aligned. This means that property owners have no proper incentive under the EU Taxonomy to invest in renovation of their building stock. To remedy this situation, we suggest expanding the activity 7.7 to include renovation/redevelopment of existing properties with poor energy efficiency (cf. above).