

Hamburg, 08 December 2022

## Next Parts of Sustainable Finance Disclosure Regulation and Taxonomy Regulation to Enter into Force on 1 January 2023

- ◆ Taxonomy will integrate another four environmental objectives
- ◆ Pursuant to the Disclosure Regulation, additional indicators need to be captured
- ◆ Indicators will have to be disclosed in annual reports, on the company website, and in the pre-contractual information

On 1 January 2023, the next parts of the European ESG regulation will enter into force. The two existing environmental objectives of the Taxonomy Regulation will be supplemented by another four. The first two objectives (climate change mitigation and climate change adaptation) have been in place since the beginning of 2022. The next four objectives will be added as of 1 January 2023 – namely the transition to a circular economy, pollution prevention and control, the protection of water and marine resources, and the protection of biodiversity and ecosystems.

Hannah Dellemann, the ESG Officer at INTREAL, elaborated: “Unfortunately, we are still very much in the dark about the new parts of the Taxonomy that will become relevant at the turn of the year. German lawmakers have not yet presented the technical criteria for the objectives three through six, and it is therefore impossible for us to say whether or not a given property fund actually advances the environmental objectives within the meaning of the Taxonomy.”

The other major set of rules, the Sustainable Finance Disclosure Regulation (SFDR), will also see changes. The regulation as such has already been in effect since March of 2021. It will now be supplemented by the so-called Level 2 Regulation, which will make the original regulation more concrete. At their core, the new regulations mandate that new formats should be used for the disclosures of Article 8 and Article 9 funds, which focus specifically on the indicator scores to be achieved. In practice, this means that the pre-contractual information will have to be adjusted in the case of Article 8 and Article 9 funds, and that their annual reports will have to include quantifiable disclosures on the achievement of the stated objectives.

In addition, any adverse consequences of investment decisions that impact sustainability factors – so called “Principal Adverse Impact” (PAI) indicators – must be measured even for non-sustainable funds. These indicators will then have to be published on the website of the respective AIF management company (German “KVG”). Dellemann commented: “We are currently working at speed to implement the latest changes within the framework of the Disclosure Regulation.”

### **Three New Indicators for Real Estate: Energy Consumption Intensity, Energy Efficiency, and Fossil Fuels**

Which new indicators will have to be disclosed in accordance with the detailed regulations of the Sustainable Finance Disclosure Regulation as of 1 January 2023? Every AIFM company must essentially measure three indicators for its fund properties: first, energy efficiency, secondly the storage of fossil fuels (e. g. service stations) and thirdly a freely chosen indicator, usually energy consumption intensity.

Hannah Dellemann elaborated: “In order to be able to disclose the energy consumption intensity, we need to measure the energy consumption as kilowatt hours per square metre and year. This indicator has to be

calculated both for the fund as a whole and for the entire portfolio of a given AIFM company. The second indicator, which is energy efficiency, is quoted as percentage. It determines the ratio of inefficient properties to efficient properties, measured by their fair market values. The Level 2 Regulation uses a formula to define what is considered energy-efficient within the EU. In the case of fossil fuel storage, the share of the rent is used as basis of assessment. In practice, this indicator is most relevant for service stations.”

To gather all this information for sales purposes, a certain template must be used, the so-called European ESG Template or EET for short. Dellemann commented: “The information to be captured by the EET is much more detailed than it used to be. Moreover, the changes aim at quantity rather than quality. In the past, many of the required disclosures could take the form of text input. Now, you actually have to measure the specified figures.”

### **Note on image rights:**

*Use of the attached image material is permitted solely for the purpose of covering the company INTREAL. Please be sure to cite the following source: INTREAL. Editing is limited to the scope of normal image processing.*

### **About INTREAL**

As a third-party AIFM, INTREAL concentrates exclusively on the business of launching and managing regulated real estate funds on behalf of third parties under the German Capital Investment Act (KAGB). The platform lets clients take advantage of every service an AIF management company (KVG) provides without having to form one of their own. Options include the launching of open-ended and closed-end property funds or the outsourcing of AIFM back offices to INTREAL. Employing 482 staff, the INTREAL Group offers long-term real estate know-how along with detailed and highly professional fund management expertise.

INTREAL collaborates with a large number of third-party fund partners to administrate 292 investment funds with a combined investment volume of c. 59.2 billion euros (all figures as of quarter-end Q3 2022).