10 changes to make the EU Taxonomy revision a success for residential mortgage loans

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EEM NL Hub

ENERGY EFFICIENT MORTGAGES Netherlands

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The Energy Efficient Mortgages NL Hub (EEM NL Hub) consists of 22 members and 19 affiliated members, representing approximately 90% of the mortgage originators in the Netherlands and many more institutions active in the Dutch mortgage market. The Dutch mortgage market is the 3rd largest mortgage market in the EU.

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A not so short Introduction

While much attention is currently being paid to developments around the Omnibus, it is important to recognise that the EU Taxonomy was already scheduled for review. The Taxonomy Regulation (TR) entered into force on 12 July 2020, with reporting obligations applicable from 1 January 2022. The Climate Delegated Act (CDA) followed, entering into force on 9 December 2021 and becoming applicable as of 1 January 2022. Financial institutions are required to report on the CDA under the Disclosures Delegated Act (DDA) starting 1 January 2024, covering financial year 2023. Additionally, the Green Asset Ratio (GAR) reporting obligation applies from the same date, further integrating sustainability considerations into financial disclosures.

As described in Article 26 of the Taxonomy Regulation, and subsequently every three years thereafter, the Commission *shall* publish a report on the application of the TR. The report shall evaluate: *the progress in implementation, possible need to revise and complete criteria, the effectiveness of the application of the Technical Screening Criteria (TSC) and the access by financial market participants covered by this Regulation and by investors to reliable, timely and verifiable information and data.*

The CDA is "*set to be regularly reviewed, at least every three years in the case of activities labelled as transitional activities according to Article 10(2) of the TR and where appropriate, amend this Delegated Regulation in line with scientific and technological developments*".

As noted, the review was already planned. However, two additional developments further underscore its importance. First, political changes within the European Union are shaping the broader policy direction. Initiatives such as the Budapest Declaration and the Compass for Competitiveness reflect a growing focus on economic growth, regulatory efficiency, and industrial competitiveness.

In this context, the European Commission is working on (multiple) Omnibus proposals[1] to streamline sustainability-related reporting obligations by merging or aligning frameworks such as the Corporate Sustainability Reporting Directive (CSRD) and the Corporate Sustainability Due Diligence Directive (CSDDD).

European Commission President Ursula von der Leyen has emphasised the need to reduce complexity, stating: "*We will reduce reporting obligations by 25% for companies, without watering down the objectives of the legislation*." She acknowledged that excessive reporting requirements could undermine competitiveness, adding: "*We must strike the right balance between necessary transparency and not overburdening businesses with reporting duties*." These remarks indicate a shift towards simplification while maintaining the EU's sustainability ambitions.

Second, there has been extensive feedback from businesses, financial institutions, and recently even national governments about how the EU Taxonomy works in practice. Many have raised concerns about its complexity, reporting requirements, and usability. Former European Central Bank President Mario Draghi has highlighted the broader economic challenge facing Europe, noting that "*Europe's economic growth has been slowing for decades, and we must now focus on making our economy more competitive and innovative*."

[1] https://commission.europa.eu/document/download/f80922dd-932d-4c4a-a18c-d800837fbb23_en?filename=COM_2025_45_1_EN.pdf

This sentiment is particularly relevant to the EU Taxonomy review, as ensuring that sustainability regulations support—rather than hinder—economic development will be a key consideration.

But is this the only issue that needs addressing? What is really the issue?

To determine Taxonomy alignment of loans related to residential real estate and the inclusion in the GAR thereof, the criteria as included in Section 7 of the Climate Delegated Act (CDA) on Climate Mitigation, covering "Construction and Real Estate" are to be applied.

However, from the very beginning, it has been evident that these criteria are primarily designed from a corporate perspective, rather than one that fully reflects the realities of the residential homeowners. This is a significant oversight, given that buildings account for approximately 40% of total energy consumption and 36% of CO_2 emissions in the EU, making them a central pillar in achieving the Union's climate objectives[2]. Homeowners are the main actors in determining whether or not to renovate their property and not the SME performing the renovation or construction work.

More crucially, residential mortgages represent the largest asset class on the balance sheets of EU financial institutions[3]. At the same time, housing costs—whether in the form of rent or mortgage payments—constitute the largest single expenditure for EU citizens[3]. Despite these facts, the EU Taxonomy's criteria do not adequately or explicitly reflect the unique characteristics of residential real estate, treating it instead as a subset of broader real estate activities rather than as a distinct and dominant asset class.

As stated, the criteria do not appear to have been developed with a specific focus on residential households or homeowners. Following three years of analysis and attempts of applying the TSC under section 7 to residential properties in practice, we have to conclude that numerous challenges exist.

A full exploration of these complexities falls beyond the scope of this paper, as many depend on factors such as the national implementation of the Energy Performance of Buildings Directive (EPBD), the methodologies used for Energy Performance Certificates (EPCs), data availability, building codes, and environmental regulations. These factors vary significantly across Member States, making the consistent and effective interpretation and application of the EU Taxonomy to residential real estate particularly challenging.

For a detailed analysis within the Dutch context, we refer to our annual Dutch Energy Efficient Mortgages Framework (DEEMF)[4], in which we provide an updated assessment of the status of the EU Taxonomy as applied to residential mortgage loans in the Netherlands. These publications present the latest developments, including the most recent Commission Notice documents, commonly referred to as FAQ documents, which provide further guidance on the implementation of the Taxonomy. By continuously integrating these updates, we aim to offer an up-to-date perspective on how the EU Taxonomy is applied to the Dutch residential mortgage market[5].

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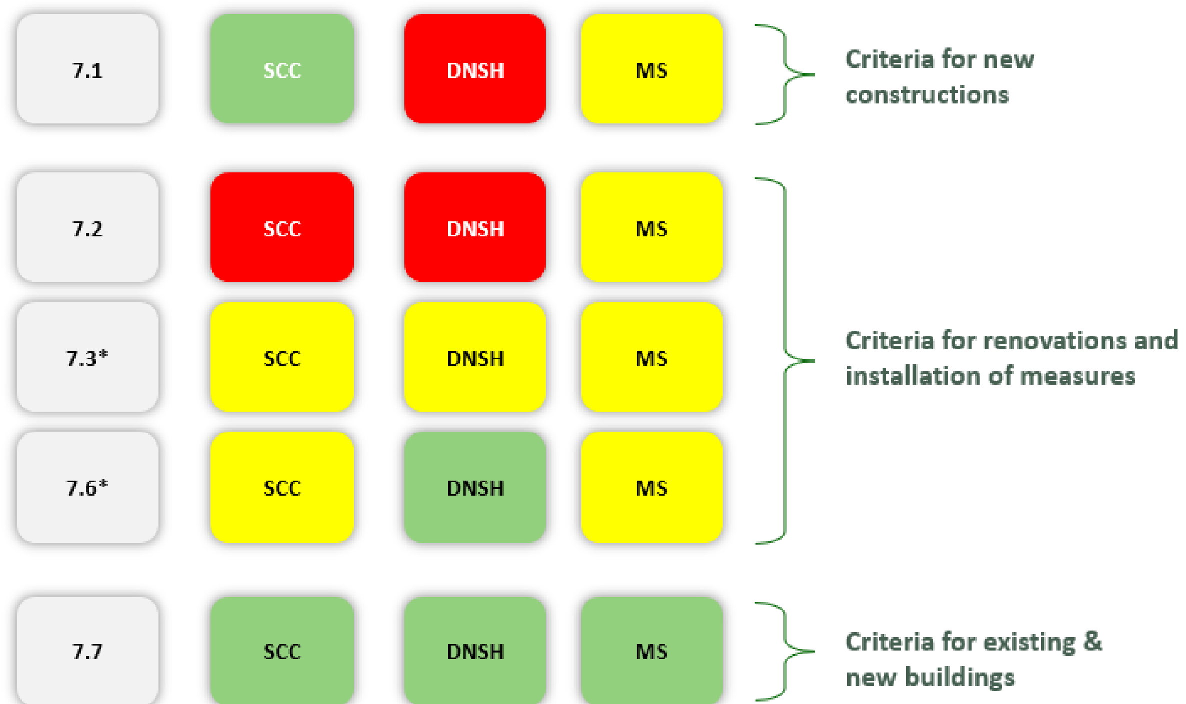
[2] European Commission (2020), *Focus on Energy Efficiency in Buildings*, available at: https://commission.europa.eu/news/focus-energy-efficiency-buildings-2020-02-17_en

[3] European Banking Authority (2023), *Risk Assessment of the European Banking System*, available at: https://www.eba.europa.eu/

[4] https://energyefficientmortgages.nl/framework/

[5] Specifically since national building codes and regulations are also updated on occasion.

As stated in this paper, our focus is on *what does work*, based on our analysis and experience. In the figure below we have depicted a high-level synthesis of Section 7 of the EU CDA for Climate Mitigation for the application of residential mortgage loans.



It is important to recognise that generalising the interpretation and application of the EU Taxonomy carries risks, as its implementation is highly dependent on jurisdiction-specific factors[6]. However, we consider these findings to be broadly representative of the classification and treatment of residential mortgage loans across the European Union.

What becomes evident is that the criteria for existing buildings, as outlined under economic activity 7.7, can generally be applied without significant obstacles. However, the same cannot be said for the criteria related to new constructions and renovations. In short, these criteria are often difficult or impossible to demonstrate in practice due to a range of factors, which can be grouped into the following categories:

1. The national methodology does not incorporate the required metrics.
2. The necessary data is not available.
3. The data exists but has not been digitised.
4. The data is available in digital form, but GDPR restrictions prohibit its practical use.
5. The specific requirement is not reflected in national regulations.

These challenges create substantial barriers to the effective implementation of the Taxonomy for new construction and renovation projects, raising questions about its practical feasibility in these areas.

[6] Such as jurisdiction specific building codes, EPBD implementation, or environmental regulations.

A common argument is that the EU Taxonomy should not only serve as a classification tool but also act as a driver for market transformation, encouraging the development of more sustainable financial and real estate offerings. In theory, this is an admirable and even aspirational objective. In practice, however, we have observed that many of the criteria are highly complex, and making them work effectively would, in reality, require fundamental changes to key regulatory frameworks. This could include revisions to national building codes, adjustments to EPC methodologies beyond the scope of EPBD III, or amendments to environmental legislation—none of which can be achieved overnight.

The current criteria under section 7 of the CDA have been developed with scientific rigour and with a strong focus on climate science by the Technical Expert Group (TEG). While science-based criteria in the TSC are vital for climate alignment, they must also be practical and scalable. The current focus risks prioritising theoretical standards over workable solutions, disregarding data availability and stakeholder readiness. A balanced approach is needed to ensure criteria align with climate goals, can be widely adopted, and do not require entirely new data sets or methodologies prematurely.

This challenge is particularly evident in the findings of the recent Platform on Sustainable Finance report on Simplification[7], which highlighted that no EU financial institution has been able to report Taxonomy-aligned renovations or new constructions. This is especially noteworthy given that these criteria were introduced in the context of the European Commission's Renovation Wave strategy, which explicitly states that the EU's renovation rate must at least triple to meet climate objectives.

This highlights the urgent need for a comprehensive revision—not only to simplify the framework but to ensure that it is practical and applicable across different regulatory and market contexts and that in this review specific attention is paid to the challenges of applying the TR to residential mortgage loans. As European Commission President Ursula von der Leyen has acknowledged the need to reduce the administrative burden, we believe that (even more) meaningful progress can be achieved not just by streamlining reporting requirements but also by reassessing and refining the underlying technical screening criteria themselves.

In January 2025, the Platform on Sustainable Finance (PSF) launched a public consultation[8] on the revision of the Climate Delegated Act criteria. However, as the PSF itself acknowledged, due to time and resource constraints, the consultation did not cover key areas such as the economic activity-specific Do No Significant Harm (DNSH) criteria. Additionally, the proposed revisions for section 7 were limited[9] to the Substantial Contribution Criteria (SCC) for economic activities 7.1, 7.2, and 7.7, leaving other key aspects of the framework unaddressed.

Notably, just one day after the consultation deadline, the PSF published its *report Simplifying the EU Taxonomy to Foster Sustainable Finance*. We consider the content of this report highly constructive and encourage the European Commission to take its simplification proposals into account seriously. However, this report does not put forward concrete proposals for updated Technical Screening Criteria (TSC) or Substantial Contribution Criteria (SCC).

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[7] https://finance.ec.europa.eu/publications/platform-sustainable-finance-report-simplifying-eu-taxonomy-foster-sustainable-finance_en

[8] https://finance.ec.europa.eu/publications/call-feedback-psf-preliminary-recommendations-review-climate-delegated-act-and-addition-activities_en

[9] In part due to the mandate of the PSF that it should only review transitional activities under the CDA review.

Rather, it represents a fork in the road, setting out high-level ideas for simplification without detailing specific revisions. Furthermore, it was not accompanied by a public consultation, leaving key stakeholders without a formal opportunity to provide direct input on its recommendations.

The need for a more tailored and proportionate regulatory approach is clear. Residential real estate is arguably the most significant and tangible asset class in the EU, both in terms of financial stability and social impact. As such, its treatment within the EU Taxonomy must ensure regulatory clarity, proportionality, and practical feasibility—particularly given the need to accelerate energy efficiency improvements in existing housing stock. Recognising the distinct role of residential real estate is not just a technical adjustment; it is a matter of ensuring that sustainability regulation is aligned with economic realities, financial risk, and the experience of European households.

A revised EU Taxonomy that is overly rigid stifles investment and innovation, diverting resources toward regulatory compliance rather than technological advancement in energy efficiency. Taxonomy criteria should attract private capital, not deter it, by ensuring predictable, feasible thresholds that strengthen Europe's position as a leader in sustainable finance.

We welcome the forthcoming revision of the EU Taxonomy as an important opportunity to enhance its effectiveness and ensure its long-term success. As stakeholders with direct experience in its application, we are committed to contributing to this process by sharing insights into both the areas where the framework functions well and those where practical challenges remain.

Transparency and engagement are key priorities for us, as we believe that an open dialogue on real-world implementation is essential to strengthening the Taxonomy's role in sustainable finance.

It is important to underscore that our objective is not to question the environmental ambitions of the EU Taxonomy, which we fully support as a key instrument in aligning financial flows with sustainability goals. However, achieving these objectives requires that the Taxonomy remains practical, proportionate, and implementable within the constraints of national regulatory frameworks, data availability, and market realities. A classification system that is robust in theory but difficult to apply in practice risks limiting its adoption and, ultimately, its effectiveness. Simplification is essential to support the EU's goal of tripling or quadrupling renovation rates to meet Green Deal objectives.

We look forward to engaging with policymakers, regulators, and market participants to support a revision that balances ambition with feasibility. By refining the criteria to reflect practical considerations, the EU has an opportunity to strengthen the Taxonomy as a tool that not only promotes sustainable investment but also aligns with the operational and regulatory realities faced by financial institutions and market actors.

Our Recommendations

In this section we highlight 10 current (practical) observations that currently limit or prohibit practical application of the EU Taxonomy. We introduce the current situation and a potential solution. We welcome an open dialogue and engagement with interested parties.

1. Applying Renovation Criteria means working with fractions of loans

Current situation

Under Economic Activity 7.2, only the portion of a loan[10] directly allocated to renovations can be considered Taxonomy-aligned, requiring complex bookkeeping to track fractional allocations. This increases administrative and IT costs while unintentionally incentivising a focus on renovations that quickly meet 7.7 criteria, where the entire loan can qualify as aligned. This approach risks discouraging broader and incremental renovation efforts, limiting the impact of the Taxonomy. Similar challenges exist for activities 7.3, 7.4, 7.5, and 7.6, as well as cross-referenced activities like 3.1 and 3.5.

Potential solution

We propose a more integrated approach to distinguishing between renovation and existing building criteria, allowing the full loan for renovation criteria, associated with the building to qualify for alignment KPIs upon meeting specified requirements.

One of the unintended policy consequences of applying loan fraction methodologies is the systematic underrepresentation of these renovation activities, as the complexity of compliance discourages their inclusion. To address this issue, it is important that, under defined conditions, the entire loan amount—rather than only a fraction—can be considered eligible for EU Taxonomy-aligned key performance indicators. This adjustment, at least for a transitional period, would help ensure that renovation financing is adequately reflected in sustainable finance metrics, thereby reinforcing the policy objective of improving the energy efficiency of the EU's building stock.

2. Bias Towards Already-Efficient Buildings

Current situation

Section 7.7(1) of the EU Taxonomy favours buildings with high energy performance, such as those achieving EPC Class A, allowing the entire mortgage loan balance to qualify as Taxonomy-aligned. In contrast, renovations under Sections 7.2–7.6 only recognise the specific renovation activity, not the property as a whole. This creates a disincentive for improving less efficient buildings as they are less likely to meet the criteria for the building (and thus the whole mortgage loan) becoming EU Taxonomy-aligned, hindering broader progress toward climate and energy goals. Prioritising "dark green" activities directs investments to compliant assets, neglecting the broader building stock needing upgrades. Net-zero goals depend on improving existing buildings, which drive most real estate emissions. Renovations are more impactful and socially crucial than new construction.

[10] An additional complexity of classifying a portion of a (mortgage) loan as Taxonomy aligned, that in asset-backed financing the aligned and not-aligned part cannot be separated legally and are therefore combined included in funding transactions. As a result of which no real benefit can be given to the aligned part by investors as the overall alignment percentage can be relatively low on loan or portfolio level.

Potential solution

This necessitates the development of targeted incentives for renovations, with a specific focus on properties classified as energy inefficient, namely those with an Energy Performance Certificate (EPC) rating of D, E, F, or G, or those currently lacking an EPC. Accordingly, substantial contribution criteria should be formulated to facilitate their application to such energy-inefficient building units. One such example can be a renovation criterium based on a number of EPC label upgrades.

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3. Level 2 Regulation being stricter than National EPBD implementation

Current situation

The current CDA TSC depend to a large degree on the national implementation of the Energy Performance of Buildings Directive (EPBD). A prominent example is SCC 7.1.1 whereby: "*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*".

Ideally the revised TSC will also be based on the new EPBD (IV) recast. However some caution must be taken into the way the criteria are designed based on the new EPBD. The PSF consultation of January 2025 report states: *As a legislation that defines green economic activities it is essential that the EU Taxonomy ambition level is well above the minimum requirements put forward in the EPBD, and that it helps to prepare the EPBD's uptake.*

The argument, put forward by the PSF, that the EU Taxonomy should *exceed the ambition level of the EPBD IV recast* can be concerning. The EPBD offers a high-level, flexible framework allowing Member States to implement energy standards tailored to national contexts. This flexibility is essential for balancing subsidiarity and proportionality, key principles under Article 5 of the Treaty on European Union (TEU). Rigid thresholds in the CDA that surpass the EPBD IV risk undermining this balance, creating inconsistencies and reducing compliance feasibility.

Stricter Level 2 requirements also create regulatory misalignment, forcing financial institutions and real estate markets to navigate conflicting obligations under EPBD IV and the EU Taxonomy. The proportionality principle under Article 5 TEU requires legislation to remain within the limits of what is necessary to achieve its objectives. Since EPBD IV already sets energy performance thresholds, additional requirements in the Climate Delegated Act risk being **unnecessary, duplicative, and beyond the intended scope of Level 2 regulation**.

To ensure **regulatory coherence and legal certainty**, the Taxonomy criteria must align with EPBD IV as implemented by Member States. Level 2 regulation should complement, not expand upon, Level 1 legislation to maintain legal consistency and ensure sustainability goals remain both ambitious and achievable.

The divergence between CDA and EPBD over the past three years has not achieved the desired policy outcomes. Specifically the current CDA criteria that are passed on thresholds exceeding EPBD, such as those of economic activity 7.1 or 7.3, are rarely or not applied in practice.

Potential solution

The EU Taxonomy should ideally (ultimately) align with EPBD IV to ensure regulatory consistency and reduce complexity. Imposing stricter thresholds than those set by EPBD IV undermines national flexibility, creating unnecessary barriers that disrupt market functioning and contradict the principle of subsidiarity.

From a legal and governance perspective, imposing stricter criteria through Level 2 regulation raises concerns about proportionality and legal certainty. EPBD IV, as a co-legislated directive, was carefully negotiated by the European Parliament and Council to balance sustainability goals with economic and social feasibility. The Climate Delegated Act, as secondary legislation, lacks the same level of democratic scrutiny. Expanding obligations at this level risks exceeding the Commission's delegated authority and creating inconsistencies with primary legislation.

The Climate Delegated Act should not override Member States' authority to implement energy standards suited to their specific regulatory and economic contexts. Instead of adding complexity, the focus must be on simplifying compliance, particularly for residential household loans, in line with the Budapest Declaration's goal of reducing administrative burdens. By aligning with EPBD IV, the EU can achieve its climate ambitions without creating regulatory bottlenecks that hinder progress.

4. Simplify criteria for renovation activities

Current situation

Currently we distinguish several renovation criteria that each present severe obstacles. For Economic activity 7.2:

- **Major renovations:** There is currently no practical way to identify major renovations in general terms. Major renovations are not registered in EPC databases across the EU. Without a clear system of identifying these, we cannot apply them.
- **Reduction in PED:** For the alternative approach under 7.2, which involves a reduction in (net) PED (excluding renewable energy sources), several challenges exist. These include the absence of approved methods to estimate PED reduction ex-ante and the difficulty in determining whether the reduction is unrelated to renewable energy installations. Currently most countries in the EU do not have a method to identify the prime energy reduction *excluding* the effect of renewables. In practice this would amount to an insulation criterium.

Until 29 November 2024, we and probably everyone else in the EU, assumed that renovation measures for residential loans were exclusively addressed under Sections 7.2, 7.3, and 7.6 of the Climate Delegated Act (CDA). However, on 29 November 2024 the European Commission published a the publication: *draft Commission Notice: on the interpretation and implementation of certain legal provisions of the EU Taxonomy Environmental Delegated Act, the EU Taxonomy Climate Delegated Act and the EU Taxonomy Disclosures Delegated Act*.

In response 62 of this document, it is clarified that the i*nstallation, maintenance, and repair* activities described in criteria 7.3 and 7.5 refer strictly to the services provided and do not extend to the purchase or acquisition of the underlying goods or installations.

Traditionally, the Taxonomy has focused on assessing whether the primary economic activity being financed aligns with environmental objectives, such as building renovations under Section 7.2. However, the new guidance introduces a requirement to assess products and equipment—such as renewable energy technologies, energy-efficient systems, and EV charging stations—against criteria outlined in sections that were previously considered unrelated, such as Sections 3.1, 3.5, and 3.20. This represents a shift from how the Taxonomy was originally understood and makes its implementation even more complex.

This effectively creates a regulatory distinction: for example, if financing an energy-efficient door for a residential household, the door itself must be assessed under criterion 3.5, while the installation, maintenance, and repair must be evaluated separately under criterion 7.3.

Based on our understanding, the Level 1 Regulation and Level 2 Delegated Acts do not appear to include a dual-layer TSC requirement for financial institutions to conduct due diligence on third-party manufacturers, unless clearly otherwise stated in the criteria itself[11]. Financial institutions financing residential homeowners typically lack a direct relationship with the manufacturers of the equipment or measures used. Imposing an expectation to verify compliance with manufacturing criteria risks expanding their responsibilities beyond their established role, potentially leading to inefficiencies and pragmatic data challenges.

Requiring compliance with manufacturing criteria may also impose disproportionate burdens, particularly for smaller residential loans, where the cost of compliance could outweigh the associated benefits.

As noted in the PSF simplification report, no financial institution in the EU has been able to report renovations as EU Taxonomy-aligned. This highlights the urgent need to establish new, practical criteria for renovations. Additionally, the current version of the Climate Delegated Act does not include specific criteria for Homeowner Associations (HOAs), despite the fact that a significant share of residential properties in the EU are managed through such associations.

[11] which is not the case for 7.3 nor 7.6

Potential solution

The renovation criteria under the EU Taxonomy should be simplified to remove unnecessary complexity while maintaining the objectives of Climate Change Mitigation objective. Clear, measurable benchmarks—such as insulation standards or energy efficiency improvements linked to EPC upgrades—would enhance legal clarity and practical implementation. Simplification is crucial to achieving the EU's Green Deal target of significantly increasing renovation rates.

Whatever approach is taken, it is essential that the new criteria are homeowner-friendly, as their engagement is key to meeting the EPBD 2050 goal. As previously stated, renovation substantial contribution criteria should apply to the full loan amount rather than favouring specific EPC categories, ensuring a balanced and effective incentive structure.

Below we provide two suggestions of renovation SCC criteria.

1) The renovation activity shall improve energy performance by at least [x] EPC label notches, in line with the national implementation of Directive (EU) 2024/1275.
2) The renovation activity shall comply with Renovation Passport measures under Directive (EU) 2024/1275 or implement at least [x] energy efficiency measures identified by: EPC recommendations or the national government.

The former approach ensures transparency and user-friendliness, while the latter allows for greater national or regional flexibility. In some EU jurisdictions, national or local governments are actively developing plans for district heating or insulation standards, which require a degree of adaptability in implementation.

We believe the revised CDA should provide similar flexibility for individual renovation measures, such as insulation, energy efficiency improvements, renewable energy installations, or district heating connections. However, this should be done without introducing unnecessary complexity by extending these measures with manufacturing criteria, which would create additional administrative burdens and limit their practical applicability. Such an approach would risk undermining the success of the framework.

Additionally, introducing criteria that better accommodate Homeowner Associations (HOAs) would significantly support the objectives of the EU Renovation Wave, ensuring that collective residential renovations can be effectively financed and implemented.

5. Simplify criteria for new buildings

Current situation

The current criterion for new constructions has been subject to multiple Commission Notice clarifications, leading to evolving interpretations and uncertainty in its application over the past three years. While the substantial contribution criteria (SCC) can be assessed in the Netherlands, this is not the case across all EU jurisdictions, creating inconsistencies that hinder effective implementation. However, two fundamental challenges remain.

Firstly, it is neither appropriate nor proportionate for Level 2 regulation to impose stricter requirements than those set by nationally implemented EPBD building codes. This creates regulatory misalignment and unnecessary complexity, particularly for residential homeowners who reasonably expect that financing the construction of a new home ensures compliance with the highest energy efficiency standards. These additional Taxonomy requirements do not address a material gap but instead create an artificial threshold that does not drive meaningful climate action. Rather than focusing on new constructions, which already adhere to stringent national regulations, EU policy should prioritise unlocking investment for the renovation of existing buildings, where the greatest potential for decarbonisation lies.

Secondly, as outlined in our broader analysis, the DNSH criteria for residential homeowners should be significantly simplified or largely removed. The administrative burden and complexity of compliance are disproportionate, particularly given the limited capacity of individual homeowners to fulfil these obligations.

Finally, ownership structures for new constructions vary significantly across the EU, presenting challenges for compliance with the DNSH and SCC criteria under activity 7.1. In many Member States, developers—often SMEs—retain ownership during construction and transfer it to homeowners upon completion, aligning with existing Taxonomy criteria. However, in jurisdictions such as the Netherlands, homeowners are the legal owners throughout the construction process. As non-undertakings, they face significant barriers to compliance with the Climate Delegated Act. These jurisdictional differences must be acknowledged to ensure a proportionate and workable Taxonomy framework that supports, rather than obstructs, investment in sustainable housing across all Member States.

Potential solution

The revised CDA must ideally align with the EPBD IV, when the relevant articles are to be implemented in national regulations, to ensure legal consistency and practical feasibility. Stricter Global Warming Potential (GWP) requirements or Nearly Zero-Energy Building (ZEB) thresholds beyond those set in EPBD IV, as introduced in the PSF consultation of January 2025, would undermine subsidiarity, disrupt Member States' autonomy, and create unnecessary regulatory fragmentation.

Additionally, premature GWP limit values before the mandated EPBD Delegated Act in 2025 would disregard Member States' discretion, exacerbate data availability issues, and introduce barriers to Taxonomy alignment.

Ensuring alignment between the CDA and EPBD IV will maintain legal clarity, support investment certainty, and uphold the balance between ambitious sustainability goals and practical implementation.

We propose that new constructions qualify to SCC if they meet the ZEB requirements defined and implemented at the national level under EPBD IV. Introducing (stricter) ZEB criteria before the timelines mandated by (EU) 2024/1275 risks regulatory misalignment and undermines subsidiarity and proportionality.

We propose as a SCC: "*The new construction activity shall comply with the Zero-Emission Building (ZEB) requirements as defined and implemented by the Member State in accordance with Directive (EU) 2024/1275*."

6. Overreliance on Commission Notice Documents

Current situation

Over the years, the Commission has developed a substantial body of guidance and notices, particularly in the context of the EU Taxonomy and its Delegated Acts. While these materials provide valuable clarifications, the growing volume has created a complex landscape of supplementary interpretations.

These documents, often structured as Q&As, are published without prior notice or opportunities for stakeholder engagement. There is no formal mechanism for submitting questions, participating in consultations, or seeking clarification, which can lead to uncertainty for market participants.

To enhance the transparency and accessibility of these materials, we suggest introducing a more structured process, such as public consultations or a stakeholder helpdesk. This would ensure that guidance remains a supportive and consistent tool while upholding democratic accountability and legal certainty.

These documents should not be viewed or interpreted in isolation but rather be considered in the context of how they overlap and interact. This approach is made more complex by the presence of cross-references within these documents, which can sometimes create ambiguities or seemingly conflicting interpretations. Furthermore, it should be noted that subsequent Commission notices may occasionally provide new interpretations or clarifications that cast a different light on previously issued guidance or answers.

This evolving context underscores the necessity of reassessing earlier positions in light of updated information to ensure alignment with the latest regulatory interpretations. In addition, this collection of notices forms a substantial body of work that must be taken into account alongside the original Level 1 (Taxonomy Regulation) and Level 2 (Delegated Acts) texts.

Potential solution

We acknowledge that the publication of Commission Notices provides valuable guidance for stakeholders. However, we propose improving the governance and transparency of their development. This could be achieved by establishing a structured process, including (1) an open window for stakeholders to submit questions and (2) a clear timeline or consultation indicating which topics will be addressed.

In some cases, responses in Commission Notices appear to go beyond their original interpretative role, raising questions about their legal scope. Such instances can raise concerns regarding legal certainty and the boundaries of administrative interpretation. One such example is answer 62 in the most recent draft Commission Notice of 29 November 2024.

Clarifying the scope and authority of Commission Notices will ensure that they remain consistent with the legislative intent of primary and secondary EU law, thereby reinforcing legal predictability and regulatory coherence for market participants.

7. Minimum Safeguards for residential loans

Current situation

In 2022, the Platform on Sustainable Finance published a report on minimum safeguards, concluding that these requirements do not apply to residential households, as they are not undertakings.[12] We consider this a reasonable interpretation. However, the European Commission has neither formally responded to this conclusion nor incorporated it into its regulatory framework, creating significant uncertainty for financial institutions providing loans to residential homeowners.

Given that there are no concrete criteria—only broad references in Article 18—it remains unclear how compliance should be demonstrated. The principles outlined in Article 18 are, in essence, already embedded in most national labour and economic laws, further raising questions about the necessity of additional requirements in this context.

Furthermore, answer 37 of the Commission Notice of 8 November 2024 does not directly address the original question but instead provides an anecdotal reference, suggesting that for a solar panel installation and a related retail loan, the financial institution should assess the manufacturers' compliance with minimum safeguards. Note that the financial institution (often) does not have an economic or financial relationship with the manufacturer when financing for instance a solar panel for a residential homeowner. This approach is impractical and fails to provide financial institutions with a workable compliance framework. Moreover, such an interpretation could unintentionally discourage homeowners from adopting renewable energy solutions, contradicting the EU's broader climate objectives.

Existing EU regulations[13] already mandate that products sold within the EU, including solar panels, comply with labour standards prohibiting child and forced labour, thus providing sufficient safeguards.

Potential solution

We propose making it unequivocally clear that Minimum Safeguards (MS) do not apply to loans provided to residential homeowners, as this ensures proportionality and avoids unnecessary administrative burdens on individual borrowers. If supply chain due diligence is deemed necessary, it should be addressed through the Corporate Sustainability Due Diligence Directive (CSDDD), which is the more appropriate legislative framework for such checks.

[12] Platform on Sustainable Finance, *Final Report on Minimum Safeguards*, European Commission, 11 October 2022. Available at: https://finance.ec.europa.eu/system/files/2022-10/221011-sustainable-finance-platform-finance-report-minimum-safeguards_en.pdf.

[13] A large body of regulation (The EU Conflict Minerals Regulation (Regulation (EU) 2017/821)), directives, EP resolutions (such as European Parliament resolution of December 17, 2020, on forced labour and the situation of the Uyghurs in the Xinjiang Uyghur Autonomous Region) and (supra) national regulations exist. EU member states have incorporated and embedded the provisions of article 18 in national regulations and policies. In addition, the CSDDD has been published in the OJ. With this in mind, imposing a requirement on credit institutions to ascertain adherence to minimum safeguards by the manufacturer of the equipment purchased as part of determining EU Taxonomy alignment of small loans to residential homeowners (which are not undertakings!) is potentially disproportionate and practically infeasible.

This approach respects the principle of legal certainty by ensuring that residential homeowners are not subject to compliance obligations designed for corporate entities, while maintaining the focus of the Taxonomy on environmental performance.

8. DNSH for retail loans

Current situation

In practice, only the DNSH criterion for Climate Adaptation is (partially) applied. This means that while the Climate Risk and Vulnerability Assessment (CRVA) is conducted, adaptation solutions are rarely implemented due to the lack of standardised and granular data. In practice, this assessment is only performed for activity 7.7 (existing buildings). As noted in the PSF simplification report, most financial institutions rely on an approach similar to the EBA Pillar III Template five assessment, which we consider a pragmatic and proportionate way forward. However, requiring such an assessment for renovation measures or criteria would be disproportionate, given the nature and scale of these projects.

For new construction and renovation, multiple additional DNSH requirements exist, but in most cases, either no granular data is available or the requirement is not reflected in existing regulations. An example of the latter is the *water efficiency thresholds set for water appliances* under the DNSH criterion for Sustainable Water Use and Marine Resource Protection. Similarly, the Circular Economy DNSH requirement *on non-hazardous construction and demolition waste* lacks a reliable public data source. While such checks may be reasonable for large-scale industrial projects, applying them to individual residential buildings can be disproportionate or put more directly- impossible.

Additionally, certain DNSH requirements, such as those for Biodiversity and Ecosystem Protection, raise questions about their suitability within a level 2 sustainable finance taxonomy. Rather than being introduced through financial regulations, these criteria would be more appropriately addressed through (level 1) national building codes or environmental legislation, ensuring consistency with existing legal frameworks and practical feasibility.

Potential solution

The DNSH criteria for activities 7.2 through 7.6 in the Climate Delegated Act demand extensive data and proof, creating a significant administrative and financial burden. In many cases, these compliance costs are disproportionately high relative to the economic value of the renovation. And in other cases it is simply not possible to check and thus proof these.

The PSF simplification report notes: "*in addition, that DNSH criteria are not embedded in EPC label schemes, which complicates data access. The Platform believes that the most effective way to ensure compliance with the DNSH criteria of the Taxonomy – not only for mortgages but also in practical application – is to integrate the criteria and themes into EPC certificates. Until then, the Platform considers that flexibility in the assessment of compliance should be provided for credit institutions when evaluating green mortgages.*"

The DNSH criteria for activities 7.2 through 7.6 in the Climate Delegated Act require extensive data and documentation, imposing a significant administrative and financial burden.

In many cases, compliance costs are disproportionately high compared to the economic value of the renovation. In other cases, the required checks are simply not feasible due to the absence of reliable data or established verification mechanisms.

Energy Performance Certificates (EPCs) in the EU are largely based on the methodologies set out in the EPBD. However, these EPC frameworks do not include requirements related to environmental or climate risk, pollution prevention and control, or the protection and restoration of biodiversity and ecosystems. As a result, there is no established regulatory or market-based infrastructure to support the application of these DNSH criteria at scale. This further reinforces the recommendation of the PSF simplification report to designate these DNSH criteria, except for CRVA in specific cases, as not applicable to residential households.

Furthermore, requiring DNSH compliance without a structured data framework risks creating inconsistencies across Member States, leading to fragmented implementation and making cross-border investments in residential renovations more complex and costly.

9. GDPR and Data Accessibility for Energy Efficiency Goals:

Current situation

Applying the EU Taxonomy to residential mortgages presents significant challenges, particularly in data collection, as financial institutions often face obstacles in accessing information that is otherwise available for EPCs. However, EPC data alone is insufficient for Green Asset Ratio (GAR) calculations, as it does not include key details such as building characteristics, renovation history, or climate risk exposure.

Beyond data gaps, GDPR restrictions further complicate access to the necessary information. Mortgage lenders do not automatically receive detailed EPC ratings, renovation records, or climate risk data unless explicitly provided by the borrower or the government.

Even when such data exists, national variations in GDPR enforcement create uncertainty regarding the lawful collection, processing, and sharing of information for sustainability reporting purposes. While some Member States allow broader data access, others impose strict limitations, leading to legal fragmentation and additional compliance risks for financial institutions.

The EU Taxonomy demands a lot of additional data, but the data governance aspect has not been addressed in either the Level 1 or Level 2 part of this regulation. This is particularly challenging for EU financial institutions committed to strong ESG policies, as **Governance**—the **G** in **ESG**—requires transparency and clear rules on data governance. Establishing a well-defined regulatory framework would not only facilitate compliance with the Taxonomy but also reinforce sound governance practices. The European Commission has a clear opportunity in the upcoming Taxonomy revision to address this issue in the Omnibus or CDA revision, ensuring that financial institutions can fulfil their sustainability commitments while maintaining robust data protection safeguards.

Potential solution

To ensure effective future revisions, the legal grounds under Article 6 of the GDPR should be consistently considered. Article 6(1)(c) (legal obligation) and Article 6(1)(e) (public interest) support data processing when mandated by regulation or public policy, while Article 6(1)(f) (legitimate interests) allows processing for essential business needs, provided privacy safeguards are upheld. Embedding these bases will help prevent GDPR from being used as a barrier, ensuring data accessibility for transparency and regulatory compliance in sustainable finance.

10. Continuous exchange with Stakeholders

As a final point, we emphasise that a key factor for success is maintaining an open and on-going dialogue between regulators, supervisors, and all key stakeholders. Much of the ESG criteria and disclosure requirements are novel for all parties involved, requiring a shared effort to ensure clarity, feasibility, and effective implementation. Continuous engagement and collaboration are essential to align expectations and develop practical regulatory approaches.

We are keen to contribute to this discussion, bringing insights from the Dutch perspective to the table.