Sustainable financing: lessons from Polish market

Questionnaire results

Piotr Mokrzański

Arcadis Poland

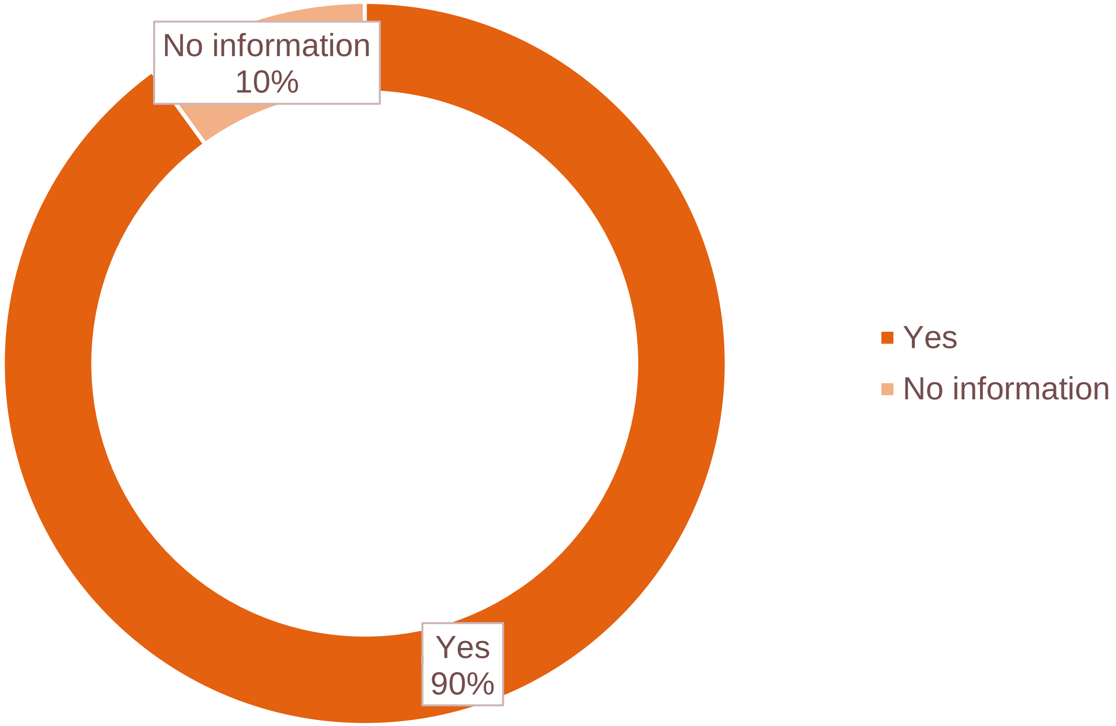
November 2023

About the questionnaire

Purpose	PINK Banking project working group has been set up to **establish the current and projected expectations regarding sustainable financing in the real estate sector**. The questionnaire prepared by Arcadis aimed to check the extent to which taking into account **ESG aspects in the decision-making process is already embedded on the market**.
Participants	The questionnaire was sent out to the **members** of the **Banking project working group**.
Timeframe	The questionnaire was sent out in **June 2023**, due to limited availability of respondents during the summer season last results were collected in **October 2023**.
Results	In total, **9 complete answers were collected**. **One bank** from came back with the feedback that it is **not able to provide detailed answers** at this point.
Questions	The questionnaire consisted of **11 questions in total**, including 1 closed, 1 multiple answer and 9 open questions.

Detailed overview of results

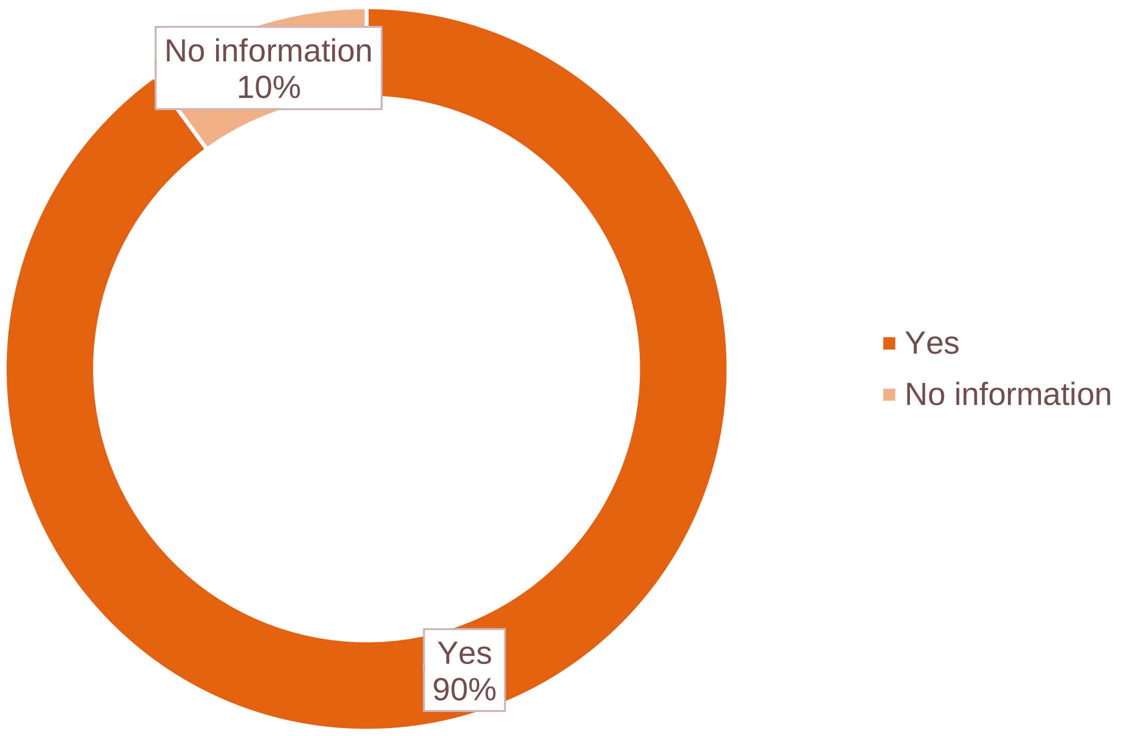
1. Does your bank have an internal ESG policy/strategy?



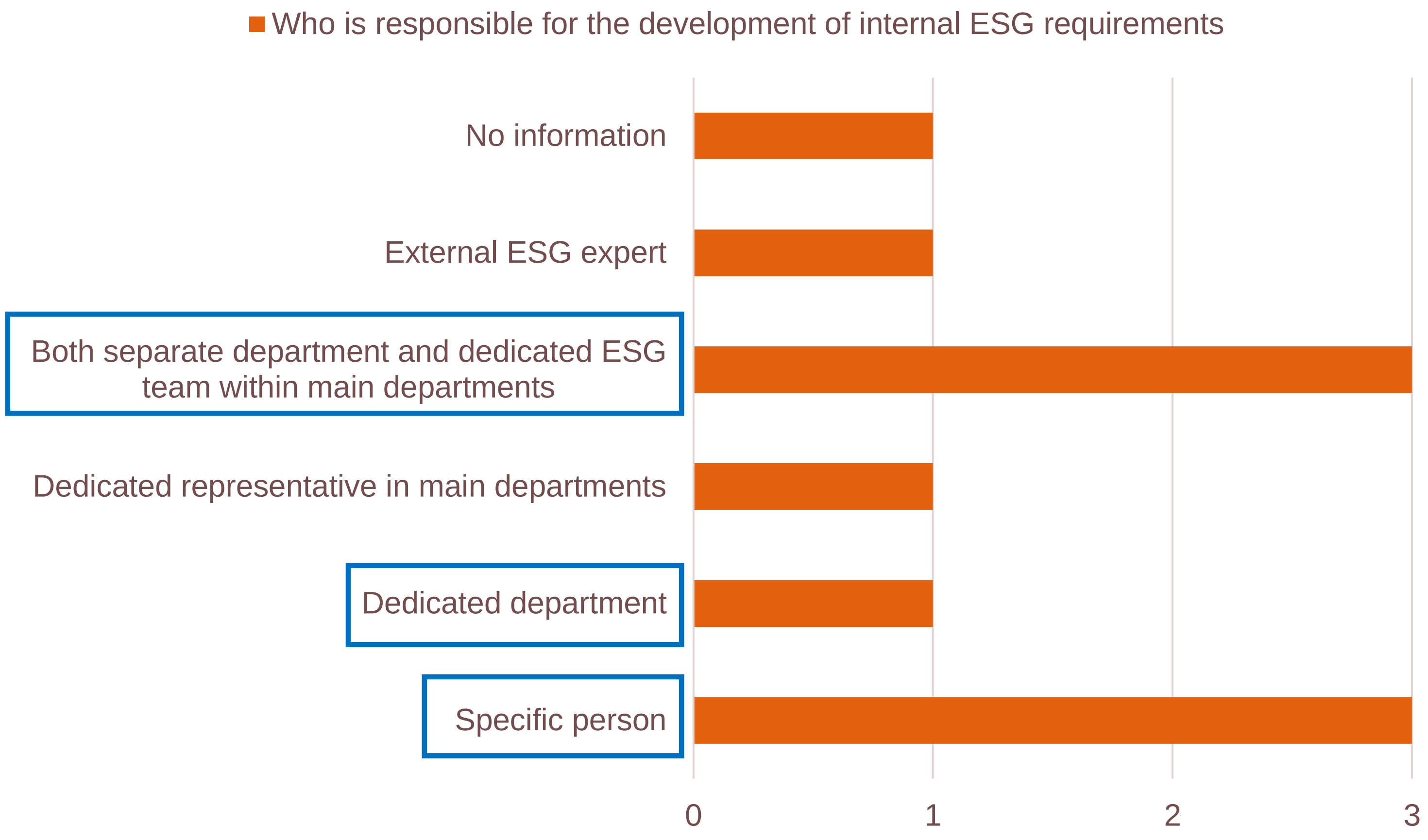
In total, **9 institutions confirmed** that they have an internal ESG policy and/or ESG strategy. Important to note, that only one from the remaining institutions came back with the feedback that it **not able to provide detailed answers at this point**.

2. Do you have a specific person/department/outside body responsible for the development of the ESG requirements in your bank's area of operation?

In total, **9 institutions confirmed** that they have a specific person or department responsible for the development of internal ESG requirements. Important to note, that only one from the remaining institutions came back with the feedback that it **not able to provide detailed answers at this point**.

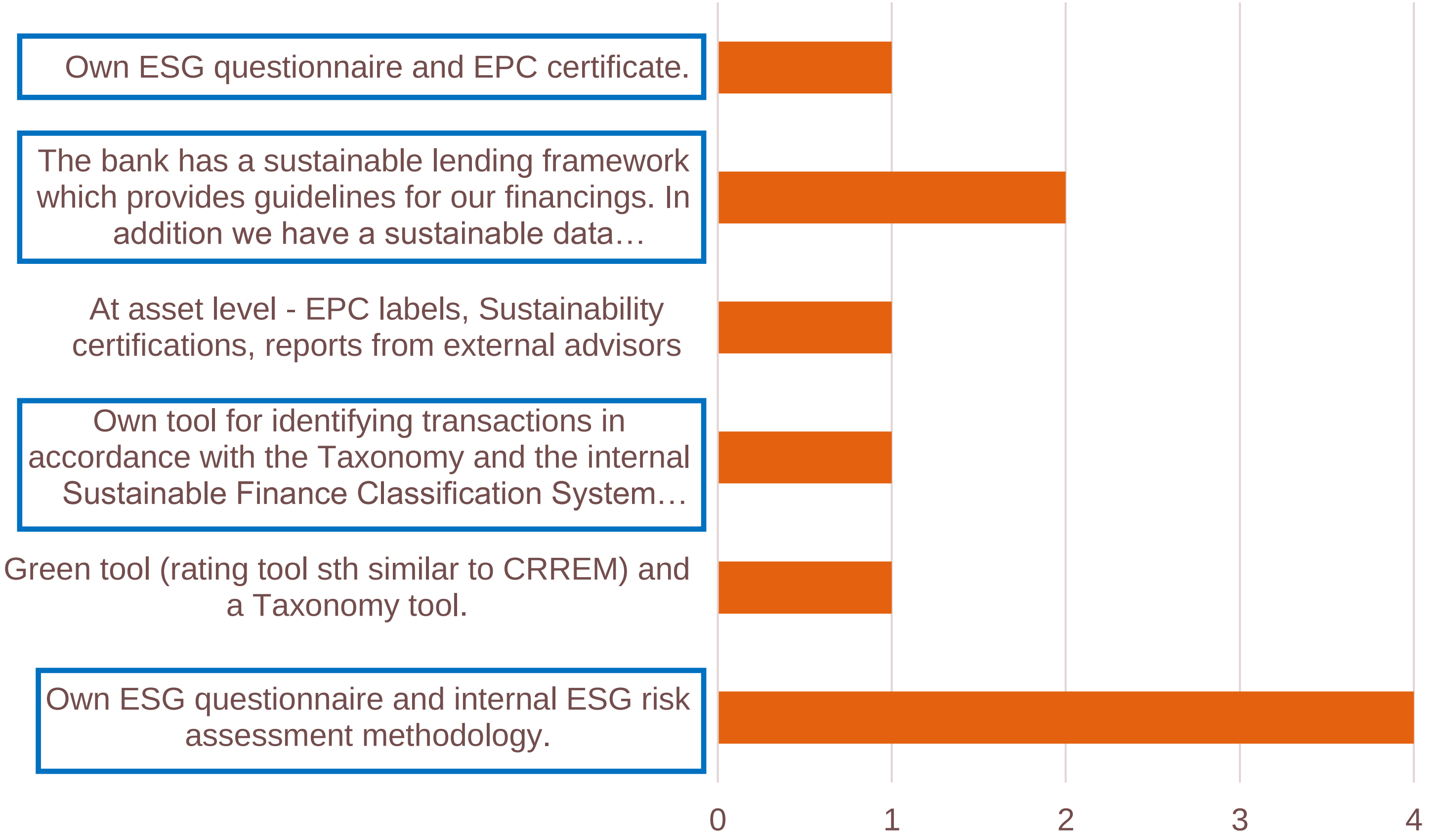


2a. Details regarding the specific person / department responsible for the development of internal ESG requirements.

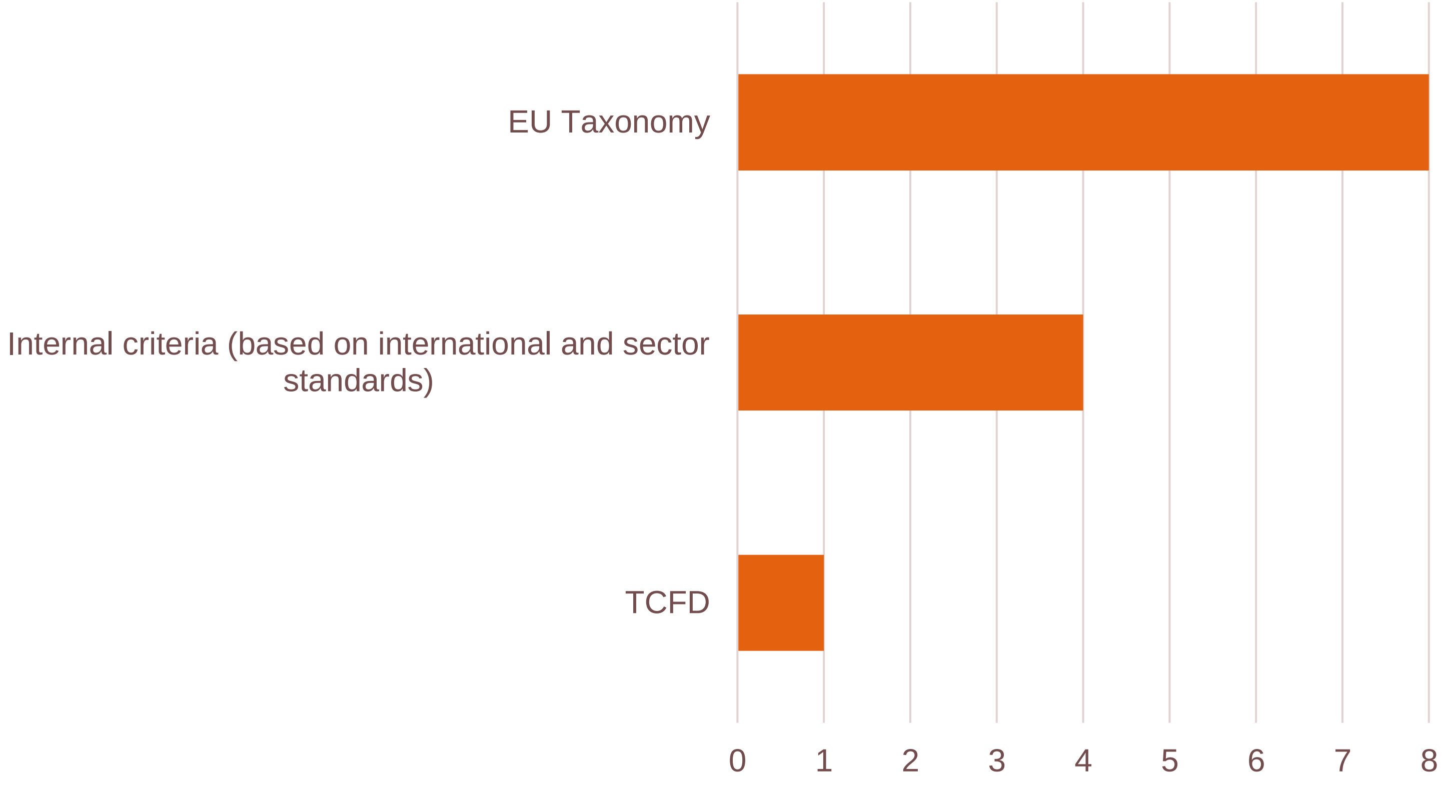


The majority of institutions have either a specific person, such as **Chief Sustainability Officer or a dedicated ESG specialist / department** who develop internal ESG requirements in line with ESG policy / strategy.

3. How does your bank verify whether the planned investment complies with ESG standards? (e.g. own checklist, verification according to a specific ESG standard)

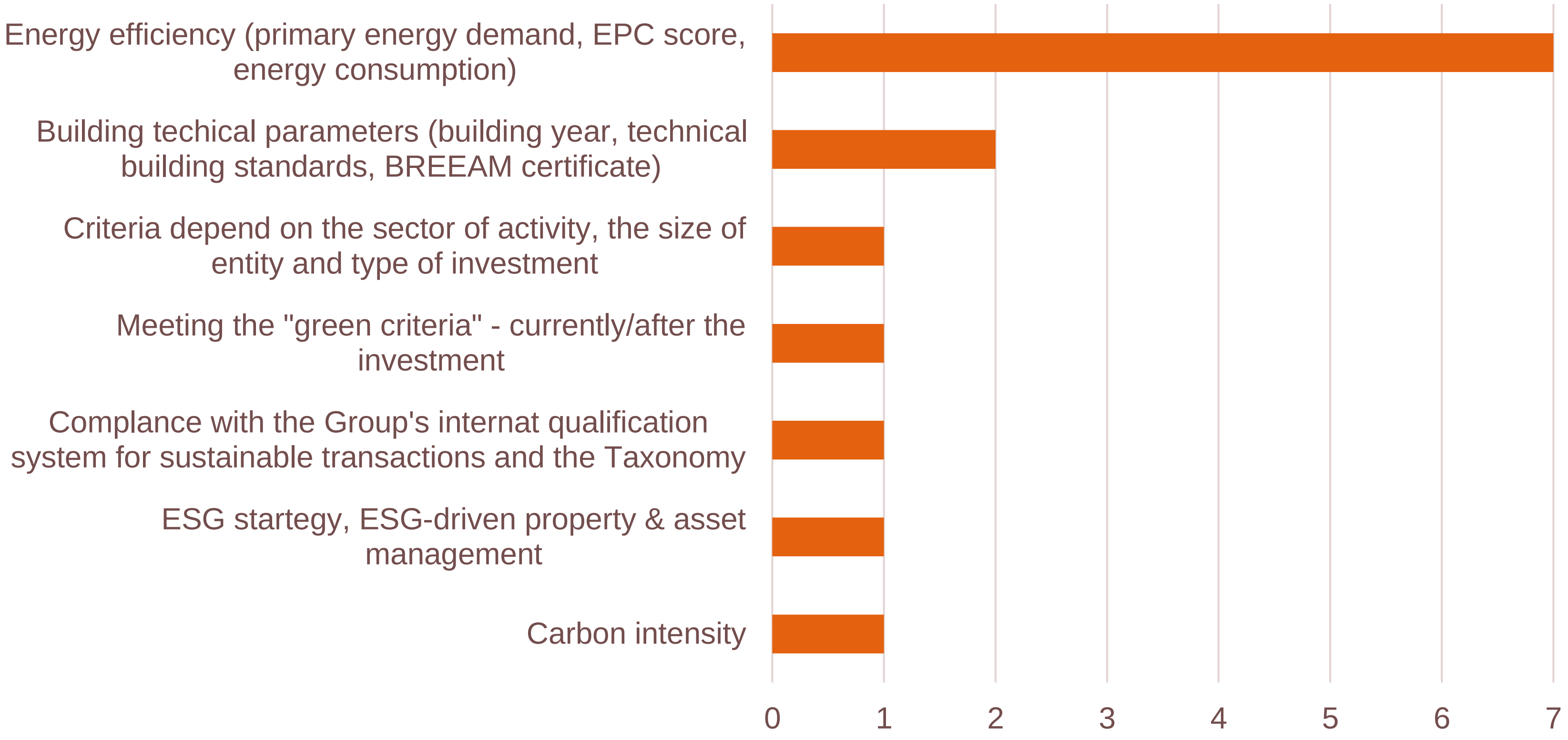


4. What specific standard does your bank check ESG investment criteria against? (multiple answers allowed)



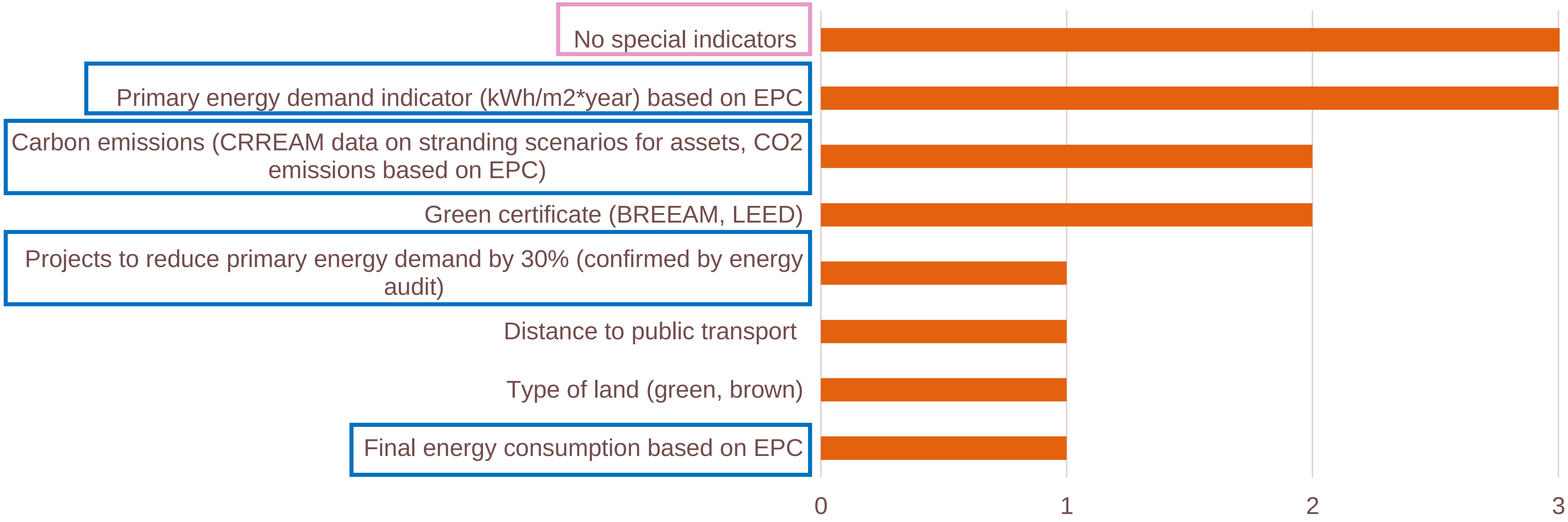
8 institutions confirmed that their main source of knowledge concerning ESG investment criteria is **EU Taxonomy.**
Furthermore, organisations base the criteria on TCFD (1 answer) and internal criteria (4 answers).

5. Which ESG criteria are the most relevant to the bank during reviewing planned investments?

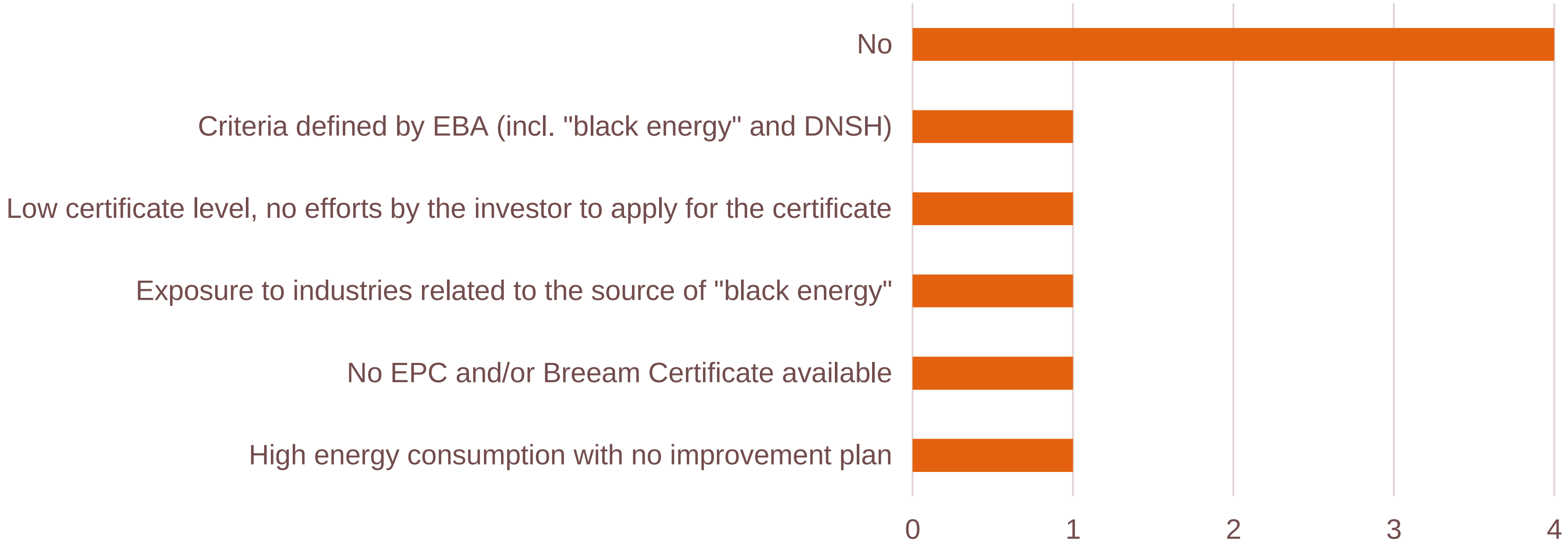


The main criterion considered when verifying planned investments are the **energy parameters of the building** - final energy demand, primary energy demand (7 answers), and technical parameters of the building (2 answers)

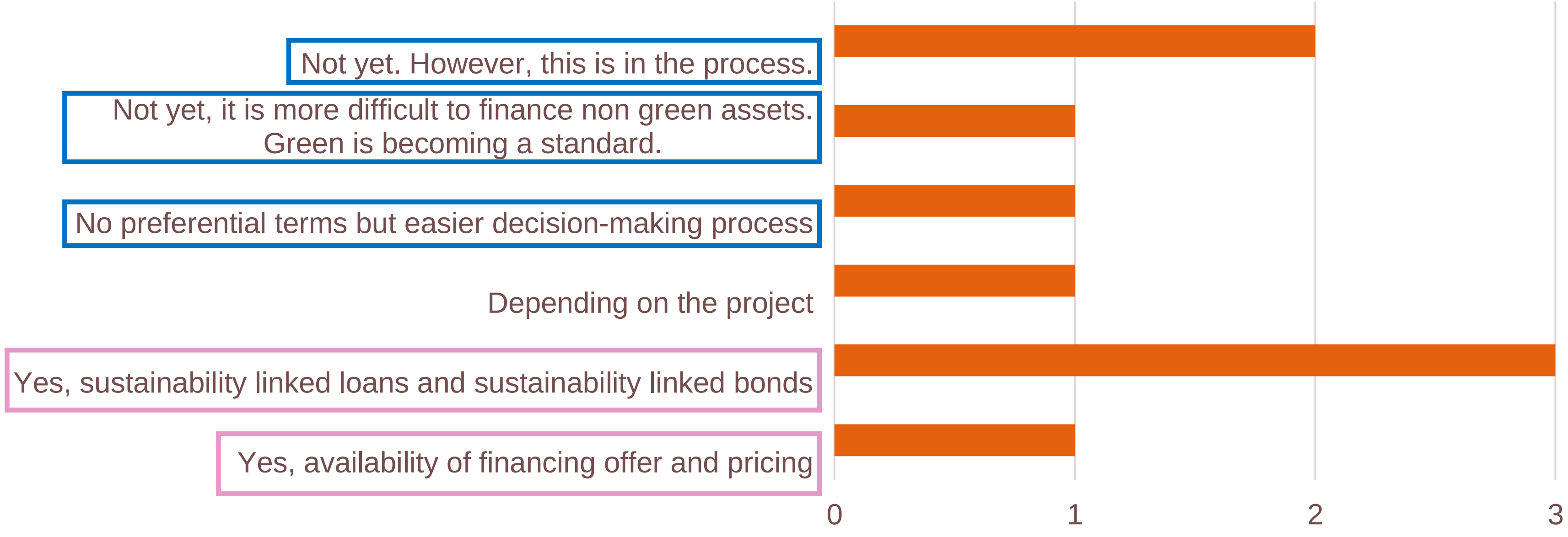
6. What are the indicators for the criteria listed in the previous section?



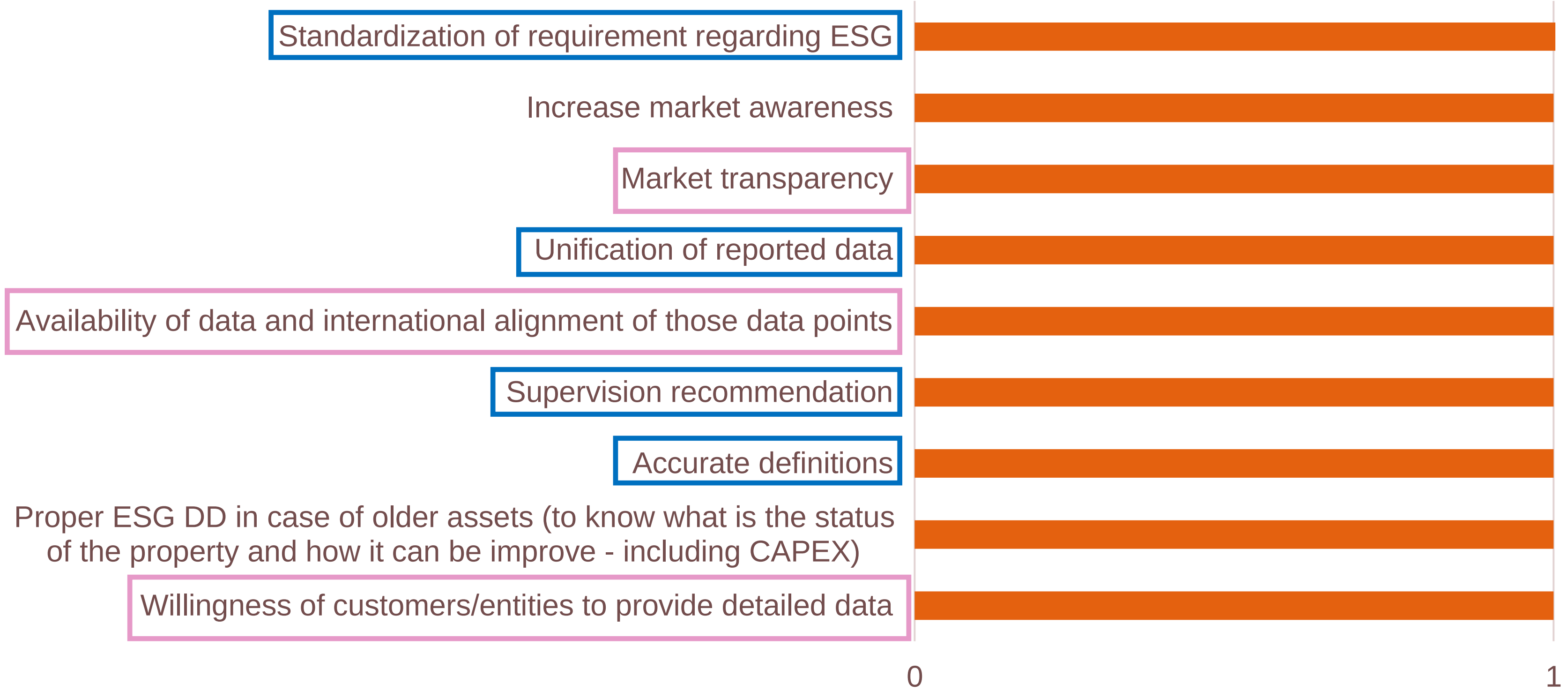
7. Are there any ESG criteria that are a „deal breaker” for the bank?



8. Does your bank offer financial tools characterized by preferential terms when certain ESG criteria are met?

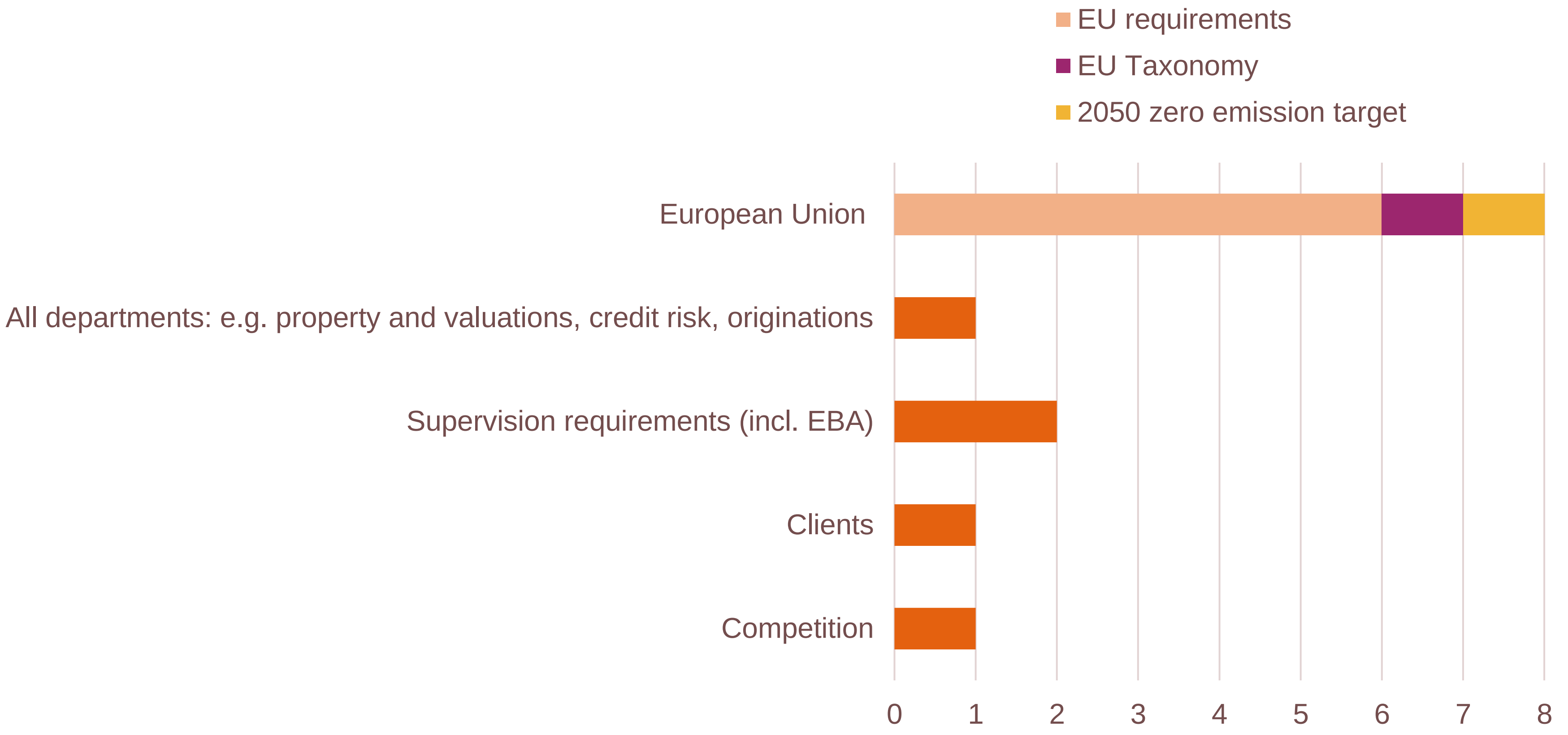


9. What is currently most lacking to further define/develop ESG standards in the bank's area of operation?

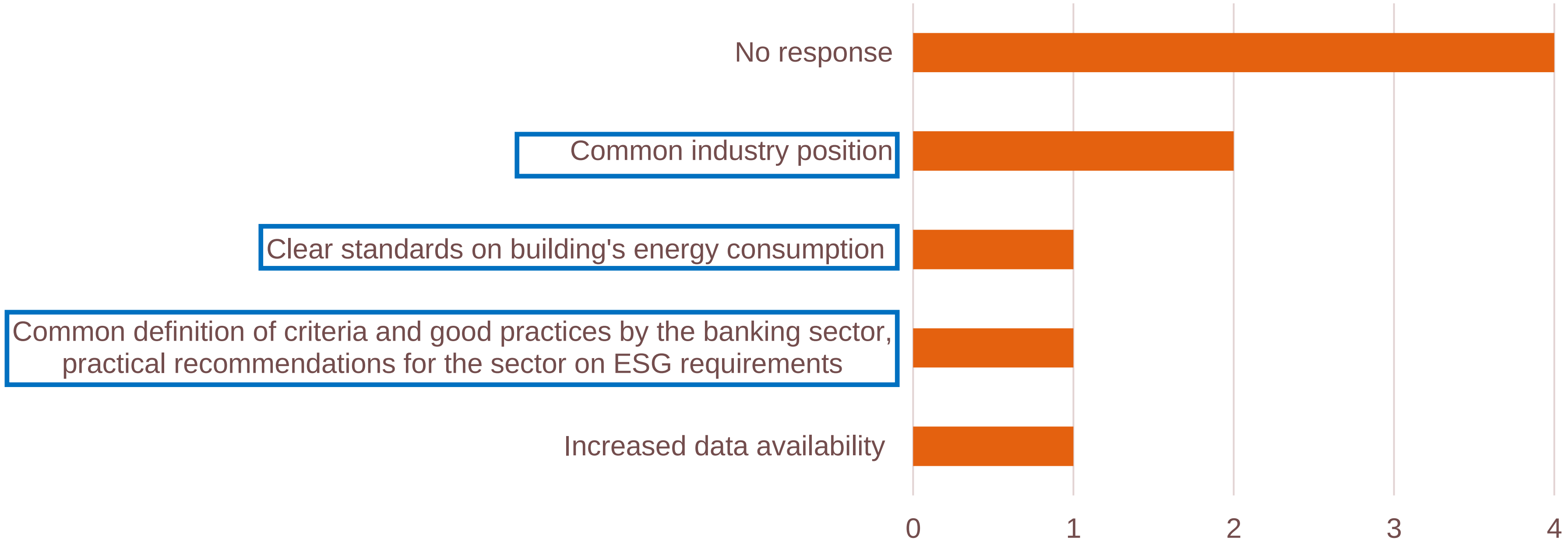


The main issues the institutions point to are:
- **lack of clear ESG guidelines and standards**;
- **cooperation with Clients and transparency in terms of data provided.**

10. Who has the most influence on the further development and clarification of ESG requirements in the bank area?



11. What would help to develop final requirements regarding ESG criteria in the bank area?



Key takeaways

Key takeaways

01 Current situation

The banking sector is **aware of the importance of including ESG criteria** in the investment decision process. In most of the interviewed banks **persons or departments responsible for ESG** have been created and internal **ESG requirements** have been set according to which investments are verified. The **most important gap** identified by the surveyed banks is the **lack of a common approach to verifying ESG aspects**.

02 Next steps

The banking sector is looking towards **regulators** and **the European Union** as the most important entities influencing the **further development and clarification of ESG standards**. In recent years and months, we have seen a **dynamic development of ESG regulations**. The next step seems to be crucial to verify the current ESG requirements and, based on them, **establishing criteria for future financial decisions**.

Sustainable financing: key ESG aspects for buildings in EU legislation

Olga Assanowicz

Arcadis Poland

November 2023

How ESG influences investment process? What ESG indicators apply to real estate?

Background

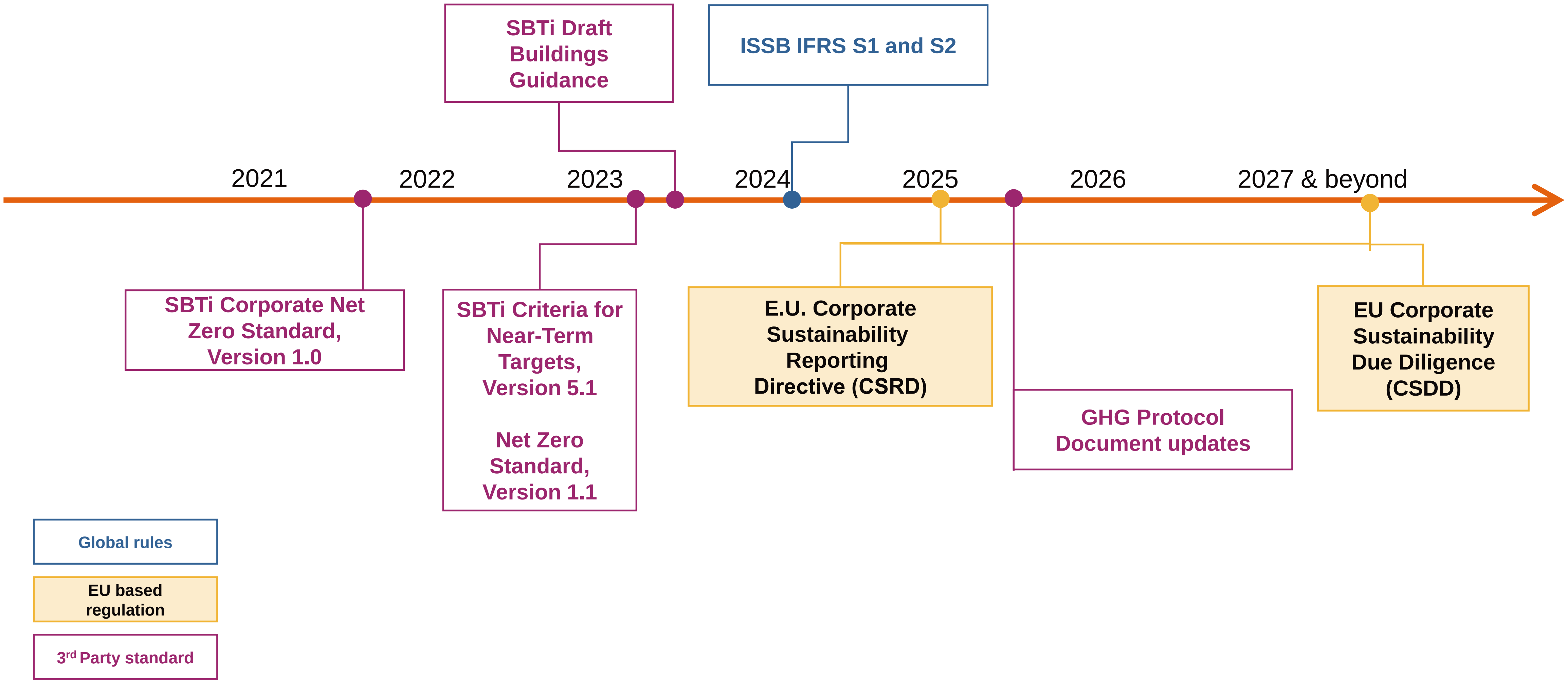
The acceleration of regulatory changes in the European Union, combined with market pressure and ownership requirements (with a growing segment of investors choosing so-called "green" investments) and the possibility of obtaining financing, affects the investment and credit policies of financial institutions.

In line with the European Commission's intentions, banks and other financial institutions play a key role in reorienting finance from high-emission sectors to low-emission sectors or towards energy transformation sectors.

The reorientation of capital flows towards more sustainable activities and investments is happening before our eyes. This also has a real impact on the results of financial institutions, even if they are not responsible for a significant part of CO_2 emissions directly, thanks to their financial resources they can influence the development of specific industries.

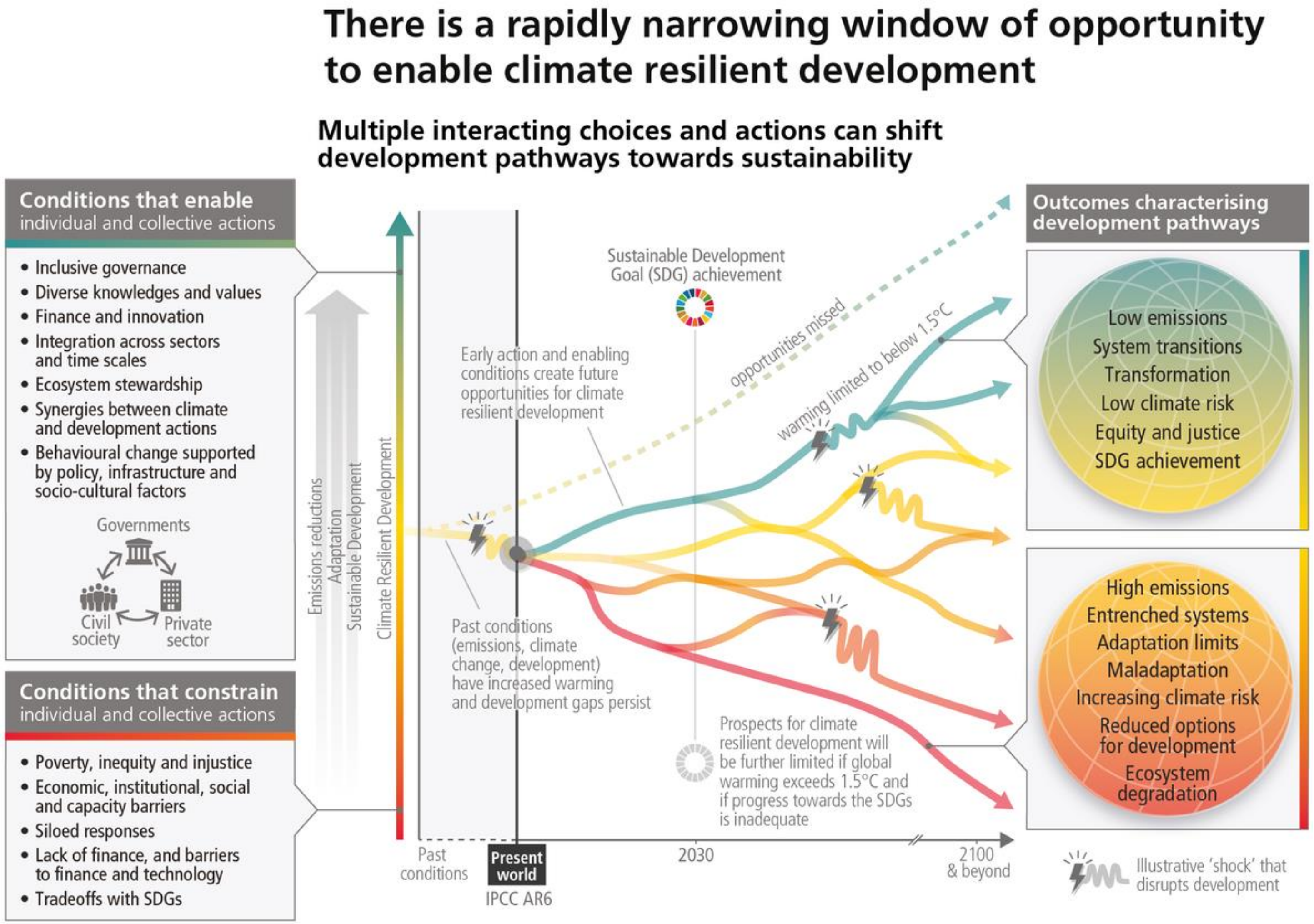
Sustainable finance is playing a key role in the transformation of business, including the real estate sector.

Regulatory reporting and 3rd party standards are increasing expectations on managing corporate social and environmental impacts, risks and opportunities.



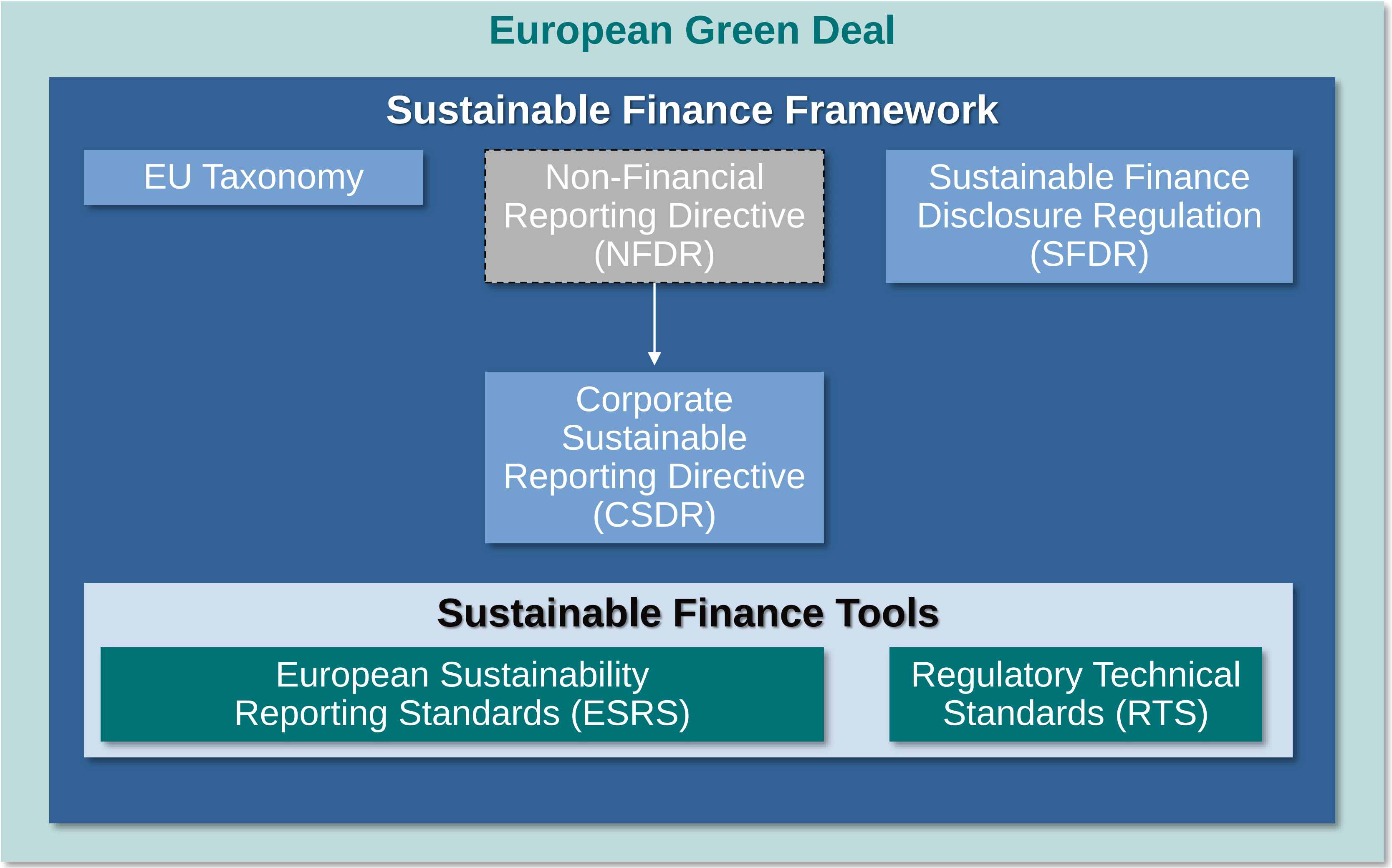
Where it all started: Paris Climate Agreement

Through the Paris Climate Agreement in 2015, the United Nations committed to limit global warming in the 21st century to less than 2°C, if possible, less than 1.5°C, and to succeed with that goal to **reduce global CO2 emissions by 80–95% by 2050**, which would result in a far-reaching decarbonization of the global economy.



AR6 Synthesis Report: Climate Change 2023 (ipcc.ch)

Ambitious EU Framework



With the growing impact of the climate crisis, the EU has created the ***European Green Deal***, a framework of rules and guidelines that aim to "*transform the EU into a modern, resource-efficient and competitive economy*"

EU Taxonomy

EUTaxonomy is intended to provide a common language and framework for identifying environmentally sustainable activities across the EU.

1. Review of eligible activities → **2. Review of alignment with the technical screening criteria** → **3. Measurement of activities – KPIs**

Eligible Activities → **Contribution to at least one of the 6 environmental objectives** → **Do No Significant Harm to other environmental objectives** → **Compliance with the the minimum Social Safeguards** → **Art. 8 publication of „green" financial ratios**

Scope Of Eligible Activtities

- More than 90 eligible activities representing 93% of EU GHG emissions (scope 1 and 2)

Environmental Objectives

1. **Climate change mitigation**
2. **Adaptation to climate change**
3. **Sustainable use and protection of aquatic and marine resources**
4. **Transition to a circular economy**
5. **Pollution prevention and reduction**
6. **Protection and restoration of the biodiversity and ecosystems**

Social Minimum Safeguards

- International Covenant on Civil and Political Rights
- International Labour Organization
- OECD

Green Financial Ratios

- ✓ Exhaustive contextual information
- ✓ Share of green TO (Turnover)
- ✓ Share of green CapEx (Capital Expenditures)
- ✓ Share of green OpEx (Operating Expenses)

Source: https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en#legislation

Sustainable Finance Disclosure Regulation (SFDR)

SFDR is the first regulation set by the EU which aims to reorientate capital flow towards sustainable finance. SFDR is set to provide transparency on sustainability within the financial market and thereby prevent greenwashing.

SFDR aims to bring a level playing field for financial market participants and financial advisers on **transparency in relation to sustainability risks**, the consideration of **adverse sustainability impacts** in their investment processes and the provision of **sustainability-related information** with respect to financial products.

The requirements of the regulation are defined both at both company level and product level.

Disclosures are made through three primary channels, including website, pre-contractual documents and periodic reports.

SFDR disclosure requirements		
Company level	Product level	
Entity-related disclosures	General financial product disclosures	ESG financial product
		with the objective of sustainable investment (Article 9)
		with environmental or social characteriscitcs (Article 8)

CSRD: disclosure expectations

Disclosure requirements

Companies within the scope of the CSRD are required to disclose on sustainability matters to understand

- The company's impacts on sustainability matters,
- How sustainability matters affect the company's development, performance, and position.

Include due diligence processes, value chain impacts, retrospective and forward-looking information

Double materiality

Disclose information that is material from the financial perspective, the impact perspective, or both.

Financial perspective

Impact perspective

Dedicated section of the management report within the annual report

Independent assurance
Limited assurance with potential reasonable assurance to follow

Mandatory digital reporting
in accordance with a digital taxonomy yet to be developed

CSRD: scope and timeline

Financial year	2024	2025	2026	2028
Applicability	EU companies or listed subsidiaries of non-EU companies already subject to the NFRD	**Large** companies (EU or subsidiary of a non-EU company) **listed on a regulated market in the EU**	Listed **SMEs**, small and non-complex credit institutions and captive insurance undertakings.	**International companies with over €150 M turnover in the E.U.** with at least one subsidiary or branch in the EU exceeding certain thresholds
Reporting level	Standalone subsidiary unless included in the parent's report or equivalent standards for a non-EU parent			Enterprise level including non-E.U. activity
Exemptions	Subsidiaries of a non-E.U. parent if: (1) the parent reports under ESRS or equivalent standards, and (2) the assurance statement on the consolidated sustainability reporting is publicly available			

ESRS standards timeline

July 2023
Final ESRS general standards

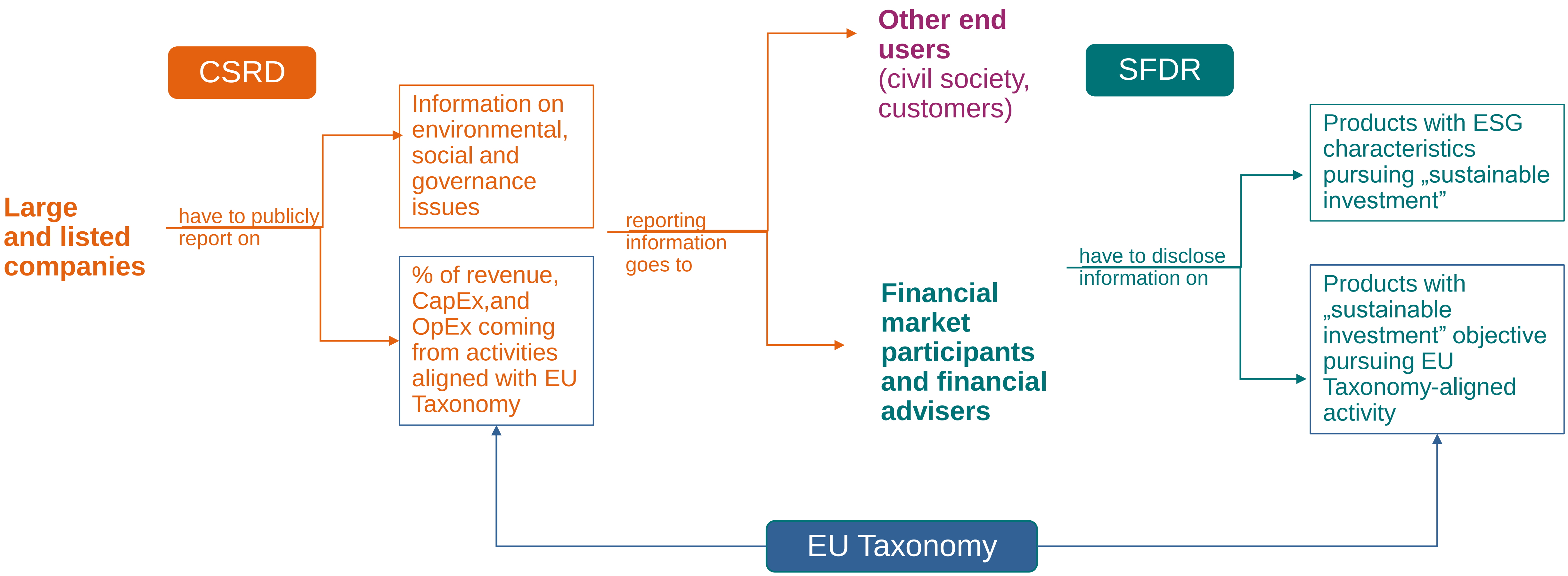
June 2024
- Standards for SMEs
- Sector-specific standards

July 2026
Standards third-county companies > €150 M turnover

Listed SMEs will have the option of meeting their reporting requirements under the CSRD by reporting according to separate, proportionate standards that the Commission will adopt by end June 2024.

The relationship between the EU Taxonomy, CSDR, and SFDR

Three main EU regulatory frameworks anchored in the EU Sustainable Finance Framework are closely interrelated.



Key takeaways

01 **New obligations**

Sustainable Finance Framework is an umbrella with which the European Union covers all market participants. The **additional ESG information needs of financial market** participants reflect their obligations under relevant laws and regulations. The real estate sector faces the challenge of **minimizing risk exposure** of tigthening ESG regulatory policy after the Paris Agreement.

02 **Overall environmental footprint**

EU regulations (EU Taxonomy, SFDR, CSRD) emphasize the key role of value chains and introduce the requirement to collect data on the overall environmental footprint of the enterprise and the investments undertaken. Environmental aspects related to **resilience and/or prevention of climate change** are commonly required information by financial institutions, with **energy efficiency and emissions** being key data. Concentrating on reducing the **environmental footprint** of the assets will not only reduce the long-run operation cost, but also improve access to financing.

Thank you for your attention.

Arcadis. **Improving quality of life.**