To: European Securities and Markets Authority

201-203 Rue de Bercy

75012 Paris, France

Friday, 15 March 2024

Re: ENGAGE for ESG response to the Consultation Paper on the securitisation disclosure templates under Article 7 of the Securitisation Regulation

Executive Summary

The ENGAGE for ESG initiative welcomes the European Securities and Markets Authority (ESMA)'s consultation paper on the securitisation disclosure templates under Article 7 of Regulation (EU) 2017/2402 (the "**Securitisation Regulation**") and would like to contribute to its from its standpoint as a consortium of expert entities in the area of sustainable finance, data templates implementation and reporting.

- European DataWarehouse GmbH is an ESMA-designated Securitisation Repository and a Eurosystem repository for ABS, pools of additional credit claims and covered bonds.
- Hypoport B.V. is a specialist IT company, developer of software solutions for the financial sector.
- Università Ca' Foscari is a pioneer university in sustainable finance programmes and research.
- Unión de Créditos Inmobiliarios, Establecimiento Financiero de Crédito, S.A. is a specialist entity in sustainable financing for mortgages and loans in the Spanish and Portuguese markets.
- Woonnu B.V. is an innovative sustainable mortgage loan originator in the Dutch market.
- Dexai s.r.l. is a consultancy company expert in compliance of new technologies with legal and ethical standards.

The signatory entities recommend the inclusion of additional climate-related indicators in the technical standards on disclosure requirements under the Securitisation Regulation upon the belief that this enhanced reporting will contribute to the accomplishment of the European Union policy and legislative objectives in the area of sustainable finance.

Following the instructions of the public consultation, the signatories have drafted the response to the consultation using the prescribed template (attached). However, the ENGAGE for ESG initiative would like to briefly present its motivation for participating in the consultation and highlight the focus of the feedback provided.

Description of the ENGAGE for ESG initiative

ENGAGE for ESG is an initiative co-funded by the European Union and launched by a consortium of the six institutions from across Europe mentioned above (the "**ENGAGE Consortium**") with the purpose of creating a standardised and harmonised disclosure framework for mortgages and renovation loans to comply with Regulation (EU) 2020/852 (the "**EU Taxonomy Regulation**").

Since its inception in November 2022, the initiative has focused on developing standardised disclosure templates for mortgage and home renovation loans in line with Commission Delegated Regulation (EU) 2021/2139 (the "**Climate Delegated Act**") to minimise the reporting burden for financial institutions.

The ENGAGE Templates 1.0 were released in November 2023 and include the data elements that allow financial institutions to disclose the alignment of their mortgages with EU Taxonomy requirements in line with the substantial contribution criteria of the Climate Delegated Act for the economic activities of construction, acquisition, and ownership of real estate, as well as the minimum safeguards.

During the coming two years, these templates will be updated and expanded to incorporate the most relevant European sustainability regulations. The templates will then be operationalised through a dedicated IT infrastructure, the ENGAGE Portal.

Response to the specific consultation questions

Question 6

Do you believe that the additional adjustments to the current framework proposed by Option B, such as restricting the use of ND options and including additional risk indicators (including climate-related indicators) are necessary? Do you support a revision of the technical standards accordingly? Please explain your answer, indicating whether you support these proposed adjustments and any reasons for your agreement and disagreement.

The ENGAGE Consortium believes that the inclusion of additional climate-related indicators is pivotal in enabling the transition towards a more sustainable economy. In this context, the increase of sustainable investments is dependent on the disclosure of climate-related information on the underlying assets of transactions. The ENGAGE Consortium fully agrees with the ESAs and the ECB regarding the need to enhance climate disclosure standards including new, proportionate, and targeted climate change-related information and is committed to supporting the ESAs and the ECB in their objective. In fact, the ENGAGE Consortium has developed a specific template (hereinafter, the "**ENGAGE Templates**") aimed -in its version 1.0[1]- at disclosing the alignment degree of mortgage loans with the requirements set by the EU Taxonomy Regulation and its delegated acts.[2]

The ENGAGE Templates (version 1.0) build upon Annex 2 of the existing technical standards on disclosure requirements under the Securitisation Regulation. When developing version 1.0 of the ENGAGE Templates, the ENGAGE Consortium has considered existing (granular) financial reporting standards for residential mortgage loans (primarily, the technical standards on disclosure requirements under the Securitisation Regulation, hereinafter, the "**ESMA templates**"), existing market practices, the importance of minimising the reporting burden for lending institutions, neutrality with regard to transaction structures, proportionality, and homogeneity.

Based on the work performed for the development of the ENGAGE Templates, the ENGAGE Consortium hereby expresses its willingness to assist ESMA in the identification and selection of the relevant climate-related data fields that could significantly enhance the transparency of climate-related risks and the characteristics of the underlying assets.

Additionally, we want to indicate that next to climate-related indicators, information on energy efficiency performance is at least equally important. In order for the Capital Markets Union to contribute towards the EU Renovation Wave, – detailed insights into renovation (potential) of building units is paramount. Therefore, we want to underpin the importance of extending residential building unit (collateral) data related to (potential) renovations.

Most importantly, the ENGAGE Templates aim to reduce greenwashing by including granular information whilst remaining compliant with current regulations such as the General Data Protection Regulation and the Energy Performance of Buildings Directive.

Question 11

Do you believe that the proposal of enriching the Annexes with climate risk indicators (presented in Section 5.4) is warranted?

Indeed, the ENGAGE Consortium believes that the proposal of enriching the Annexes with climate risk indicators is warranted due to the increasing demand from data users (including institutional investors, credit rating agencies, and academics), in particular, with regard to assets significantly exposed to physical risks, such as residential real estate.

The ENGAGE Consortium agrees that the proposed climate risk indicators are generally appropriate. However, a systematic and teleological approach to integrate such indicators into the templates would be welcome. In this sense, the ENGAGE Consortium recommends adding

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[1] Currently under registration process at the Spanish Intellectual Property Register with entry reference number *09/261246.9/24*.
[2] The ENGAGE Templates will evolve in the near future with the aim to include additional metrics from the European Investment Fund as well as the European Central Bank climate disclosures.

to the ESMA templates the relevant additional fields that enable the qualification of transactions as "sustainable" according to the EU Taxonomy Regulation and its delegated acts as a first step. At a second stage, the proportion of key financial performance indicators (operational expenditures, capital expenditures, turnover), as well as the property location and physical characteristics not provided under the scope of the EU Taxonomy Regulation -and its delegated acts- requirements could be incorporated, as this information is already present in the ESMA reporting templates for RMBS. Furthermore, this could bring the sustainability related content that is in development in the forthcoming EU Green Bond Standard closer to securitisation disclosure.

Question 12

In addition to the list of advantages and challenges identified by ESMA in introducing the proposed sustainability indicators, do you believe additional advantages and challenges should be factored in?

The unavailability of detailed energy efficiency indicators pertaining to real estate exposures, constitutes one of the main challenges, especially for old properties (built before 2020). The challenges relate, amongst others, to personal data protection restrictions and to the lack of comparable indicators across jurisdictions -due to inconsistent national legislation regulating the access (or lack of it open access) to the Energy Performance Certificates (EPCs), for instance-.

In line with the Joint ESAs-ECB Statement disclosure on climate change for structured finance products as of 13 March 2023 ("**ESAs-ECB Statement**") to develop a dedicated reporting template for EU Taxonomy compliance, the ENGAGE Consortium delivered a proposed set of fields to improve the harmonisation of sustainability disclosures for mortgages. The ENGAGE Consortium believes that the addition of a limited number of sustainability indicators is the best way forward to achieve the goals of the ESAs-ECB Statement for structure finance products taking into consideration the more granular existing reporting requirements used by market participants. With regard to data availability challenges, the existence of a European-wide disclosure requirement embedded in the ESMA templates will encourage national competent authorities in the diverse areas (securities and markets authorities, data protection authorities, energy authorities, climate change and financial stability etc.) to adopt a uniform European approach for the issuance of standardised information that market participants will use for the reporting under the Securitisation Regulation. This will ultimately benefit the buy-side, facilitating the comparability of credit and sustainability information across EU Member States. Currently, the lack of open access EPC availability reduces financing for existing properties, unduly penalising dwellings rated in the lower energy performance classes (F, G in particular) as rising energy costs impact the availability of disposable income to European citizens. Addressing energy poverty via the financing of older properties and renovations are at the core of the ENGAGE initiative consistently with the current revision of the Energy Performance of Buildings Directive.

In light of the evolving regulatory landscape and the pressing global imperative to address climate change, there is a growing recognition of the necessity to integrate environmental considerations, particularly those related to energy efficiency and climate risks, into financial market regulations. As such, the potential additional forthcoming inclusion of additional data fields concerning energy efficiency and climate risks within securitisation regulations is a significant step towards fostering transparency and resilience in financial markets.

However, it is essential to underscore the principle of fairness and ensure a level playing field across all relevant financial instruments. In this context, it is incumbent upon regulatory authorities to extend similar disclosure obligations across financial instruments within the EU. Structured finance products represent a significant segment of the financial market, and their omission from comparable disclosure requirements would create asymmetry and potentially undermine the efficacy of regulatory efforts aimed at addressing climate-related risks. By aligning disclosure obligations related to energy efficiency and climate risks across fixed income instruments, the EU can enhance transparency, facilitate informed decision-making, and mitigate systemic risks arising from climate-related factors.

In summary, the ENGAGE Consortium strongly recommends the addition of key climate-related data fields in the revised ESMA templates. The ENGAGE Consortium anticipates that while data quality might not be optimal upon the introduction of such disclosures, it firmly believes that it will progressively improve as market participants become familiar with this type of disclosure over time.

In terms of overlap with other reporting regimes, the ENGAGE Consortium is fully committed to the harmonisation and centralisation of disclosures.

In fact, while developing the ENGAGE Templates, the ENGAGE Consortium has adopted a one-size-fits-all approach, aiming to provide a solution useful for the diverse sustainability disclosures regimes and thus, avoiding duplicated reporting.

The ENGAGE Consortium hereby expresses its willingness to assist ESMA in the cost-benefit analysis and assessment for the introduction of sustainability indicators for securitisations with residential real estate and home renovation loan exposures.

We remain at your disposal for any questions related to the proposed ENGAGE Templates and infrastructure solution for ESG compliance related to residential mortgages and home renovation loans.

Yours faithfully,

The ENGAGE Consortium members

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