

Press release

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vdp criticizes European Commission's drafts for revising the EU Taxonomy

- **Main criticism concerns lack of practicability**
- **Fundamental revision is called for**

The Association of German Pfandbrief Banks (vdp) has levelled unequivocal criticism at the European Commission's drafts for revising the EU Taxonomy. Specifically, the criticism concerns planned adjustments to the delegated acts covering the six environmental objectives set forth in the framework. In the vdp's view, the drafts fail to meet the aim of increasing the application of the Taxonomy in property financing by financial institutions and of heightening its market acceptance. In particular, the vdp argues that the Taxonomy will continue to lack practicability even after it has been revised.

“Renovation activity will continue to be curbed rather than promoted.”

Sascha Kullig

“The drafts come as a disappointment to the banking sector. They are impractical and are still far too complex,” commented Sascha Kullig, a member of the vdp's Management Board. As an example, he pointed out that the Taxonomy fails to meet the aim of becoming the steering instrument for the decarbonization of the building stock. “Renovation activity will continue to be curbed rather than promoted. In the financial institutions' view, the Taxonomy requirements become nothing more than a mere formality in sustainability reporting.”

The vdp has compiled its points of criticism in a response to the consultation launched by the European Commission in mid-March of this year. In its response, the vdp calls for a fundamental revision of the drafts and specifies, among other things, the following shortcomings and petita:

- The exclusion of efficiency gains from energy efficiency measures – e.g. from the instalment of a photovoltaic system – is not practicable. Moreover, the envisaged “Do No Significant Harm” (DNSH) assessment requirements with regard to the protection of water and marine resources, the circular economy and environmental pollution are excessive: they are often out of proportion to the financing volumes involved and do not take the actual data situation into account.

- The vdp advocates that the DNSH assessment requirements be completely dispensed with in the case of renovation work. Instead, they should be designed as observation criteria. Moreover, conversions to green energy carried out by the energy provider should qualify in exactly the same way as efficiency gains that can be achieved, for example, by installing a photovoltaic system.
- The vdp welcomes that a transition requirement is to be added to the Taxonomy (*a building is considered “green” if, among other things, a 60% increase in efficiency within the last 10 years can be demonstrated at the time of purchase or financing*). However, this requirement is impossible to apply in practice. For one thing, a 60% reduction is ambitious and often unachievable. For another, banks do not have the historical data needed to make a before-and-after comparison of energy-efficiency renovations. Additionally, a subsequent assessment of efficiency gains contradicts lending practice and is a requirement banks cannot enforce in their dealings with customers.
- Taxonomy compliance must be given at the time of extending the loan, based on already existing documents (building renovation passport, energy performance certificate). Post-contract reassessments are neither practicable nor marketable.
- The drafts currently state that only the part of the loan for renovation work is Taxonomy-compliant, and not the entire financing of the purchase of the building and the renovation. This rule is incomprehensible and poses an obstacle to a greater volume of Taxonomy-compliant property loans.
- The vdp calls for the entire loan extended to finance the purchase of the building and the renovation that is often initiated at the same time to become Taxonomy-compliant if the savings targets are met.
- According to the European Commission’s proposals, the energy efficiency requirements for “green” new buildings and newer properties that today already exceed the national threshold for a nearly zero-energy building are to be tightened even further. Specifically, it is envisaged that new construction standards should be brought forward before the Energy Performance of Buildings Directive (EPBD) is transposed into national law. This would impede their applicability.
- The vdp objects to the plan to bring forward the introduction of new construction standards.

“Unfortunately, the draft in its present form clearly lacks practical relevance.”

Sascha Kullig

“The EU Taxonomy can be effective only if it is applicable in practice,” Kullig pointed out. “Unfortunately, the draft in its present form clearly lacks practical relevance.” The proposed amendments, he argued, make it more difficult for financial institutions to generate a higher volume of Taxonomy-compliant property loans, and thus a higher green asset ratio. To avoid jeopardizing investments in the building stock, the EU needs to define the criteria for classifying green buildings in a more practice-oriented manner, Kullig concluded.

For the vdp’s complete response to the European Commission’s consultation on the Taxonomy, follow this link: [LINK](#)

About the Association of German Pfandbrief Banks (vdp)

The Association of German Pfandbrief Banks is one of the five umbrella organisations of the German banking industry. It represents the leading providers of capital for residential and commercial property construction as well as for the government and its institutions.

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