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Response to: Enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers

The Investment Property Forum (IPF) welcomes the opportunity to respond to the above consultation, which we consider to be an extremely important area of regulation.

IPF is a national membership organisation of senior professionals, all active in the property investment and finance market. The organisation has a diverse membership of around 2,000, which includes fund managers, investment agents, accountants, bankers, lawyers, researchers, academics, actuaries and other related professionals.

The IPF's Mission is to enhance the understanding and efficiency of property as an investment, including public, private, debt, equity and derivatives, for its members and other interested parties, including government. The IPF has a dedicated ESG Special Interest Group, the members of which have engaged in previous government consultations and participated in working groups in relation to the development of guidance, e.g., on the implementation of MEES. The ESG Group worked with our Indirect Property Special Interest Group, which also responds to government consultations including submissions earlier this year to the HM Treasury's second stage consultation on 'The Tax Treatment of Asset Holding Companies in Alternative Fund Structures' (February) and the 'Review of the UK funds regime' (April).

The IPF is not a lobby organisation but one of our key priorities is to identify where legislation or regulation has, or will have, an impact on the market and to alert government and our members to any adverse or beneficial issues.

General comments

We are broadly supportive of the proposed approach and the alignment with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). However, as currently envisaged, the reporting framework would appear to be suitable for funds and institutional investors holding equities but may be impractical for other asset classes, as outlined in our response to questions 4, 6, 10, 11, 12, 14 and 15.

In particular, we do not believe that the metrics are suitable for investments in real estate. This is the case for TCFD, on which it is based, and was also an issue with the EU's Sustainable Finance Reporting & Disclosure regulation (SFDR). The original regulatory technical standards (RTS) for the SFDR, much like the TCFD, did not have appropriate measures for real estate, being designed with equities in mind. Following feedback from real estate industry bodies, the revised RTS did include real estate specific measures, although these remain somewhat problematic. Further revisions to the RTS are awaited.

In order to provide more aligned and relevant metrics for the reporting of real estate climate-related impacts and resilience, the Association of Real Estate Funds (AREF) and the IPF, with the support of CBRE, have produced a paper (Metrics for Commercial Real Estate ("CRE") – Alignment in response to FCA CP21/17), which they have shared with other real estate industry bodies. This paper, enclosed as an appendix to our response, proposes an approach using the existing CRREM (Carbon Risk Real Estate Monitor) tools. We hope that you will agree that the recommendations made are sensible, however, the timetable to respond to this consultation, on what is a highly complex subject, has been tight so we have not had time to develop fully-fledged proposals for real estate reporting. We would be delighted to work with the other real estate industry bodies and the FCA to develop these.

We also think that it is important to note that investment in real estate can take a variety of forms, direct and indirect, public and private, equity and debt. These have different characteristics. We are aware that there is a separate consultation on listed entities (CP21/18) running in parallel to this consultation. We have not in this response addressed matters specific to lending to finance real estate but understand that the Commercial Real Estate Finance Council (CREFC) Europe is making a submission in this regard.

As stated above, we would be delighted to work with the other real estate industry bodies and the FCA to work further on alternative proposals for the real estate asset class and believe that this should cover the broadest cross-section of the real estate industry, as well as occupiers.

Responses to specific questions

Please note that our responses to the specific questions focus on issues of data and benchmarking. We have left other organisations to respond in more detail on additional aspects of the consultation questions.

Q1 Do you agree with our proposed scope of firms, including the £5 billion threshold for asset managers and asset owners? If not, please explain any practical concerns you may have and what scope and threshold would you prefer.

We have no comments, other than to note that many fund managers below the threshold level proposed will need to provide the data, as they will have investors who are above the threshold.

Q2 Do you agree with the proposed scope of products? If not, what types of products should or should not be in scope and why?

We have no comments, for the reason noted above.

Q3 Do you agree with our phased implementation and timings? If not, what approach and timings would you suggest and why?

We have no comments, for the reason noted above.

Q4 Would there be significant challenges in using proxy data or assumptions to address data gaps? If so, please describe the key challenges and implications as well as any preferred alternative approach.

We think that the ability to use proxy data because of significant data gaps, which we explain below, and ensuring the quality of that proxy data are both fundamental to the effectiveness of the proposals.

We are supportive of the proposed approach, which aligns with the Government's ambition that TCFD-aligned disclosures should be mandatory across the UK economy by 2025. For real estate, as with many other asset classes, it is increasingly important to be aligned with a global framework, which a TCFD-based approach would achieve.

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We note the comment in 3.34 of the Consultation Paper regarding flexibility, “where methodologies for certain metrics are not yet widely established”. As stated in our General comments, we think the reporting framework, as currently envisaged, would appear to be suitable for funds and institutional investors holding equities but may be impractical for other asset classes. In particular, we do not believe that the metrics are suitable for investments in real estate. This is discussed in more detail in our response to question 11.

In the absence of current suitable metrics for real estate as an asset class, the options would appear to be:

a) Develop suitable metrics for real estate to be reflected in regulation;

b) Allow trade bodies for particular asset classes to develop suitable proxy data or assumptions for asset classes for which the current metrics are not suitable. The IPF would be happy to work with other real estate industry bodies and to form part of a real estate representative subset of the various industry bodies to meet and discuss this with the FCA; or

c) Allow businesses to adopt proxy data or assumptions.

We believe that there is a significant risk of inconsistency if businesses are allowed too much flexibility in deciding upon their own assumptions, undermining the credibility of the measures, and we would therefore be in favour of options a) and b).

For real estate, there are likely to be significant data gaps where information relates to the activities of the occupier of the property, rather than the asset owner. Real estate is a highly complex asset type, with a diverse mix of types of property and underlying tenant, commercial and residential. The industry is making significant steps towards better collaboration, but a ‘one size fits all’ approach is unlikely to be effective. As mentioned in our General comments, we believe that the dialogue to develop a real estate approach should include the broadest cross-section of the real estate industry as well as occupiers.

We have significant concerns about the concept of ‘best efforts’ and believe a better approach is to follow ‘industry best practice’ for the asset class. This would then allow industry bodies to set ‘best practice’ standards, something which they already do in other areas. For example, AREF already has a code of practice for member funds that sets out mandatory obligations and best practice in matters that are not mandatory.

Q5 Do you agree with our proposals for the provision of a TCFD entity report, including the flexibility to cross refer to other reports? If not, what alternative approach would you prefer and why?

We have no comments, for the reason noted above.

Q6 Do you agree with our proposed approach to governance, strategy and risk management, including scenario analysis? If not, what alternative approach would you prefer and why?

We consider this an important area for real estate as an asset class. Real estate is a highly granular asset, with different buildings or types of building having very different characteristics. Investments will often be held longer than for many other types of investment, for example equities, and will typically be very actively managed. In an environment of lower longer-term returns and higher transaction costs (for example, 5% stamp duty land tax (SDLT) on commercial property over £1m compared to 0.5% stamp duty on equites), means that many investors are looking to hold assets for longer. Therefore, scenario analysis is something that real estate investment managers would generally be undertaking already and is something that we regard as one of the most important elements of the climate-related disclosures. This is not necessarily the case for other asset classes. The key thing is that the approach should be relevant for the particular asset class, rather than seeking a single approach for all.

Scenario analysis should consider both different climate-related scenarios and different business scenarios.

Although scenario analysis would appear to be highly relevant for real estate as an asset class, it may be much less so, or even impractical for other asset classes. The larger investment managers, to whom the proposals apply, will typically be managing a variety of different asset types, the characteristics of which will vary significantly. The entity level disclosure may, therefore, cover a broad range of approaches, which makes portfolio and product disclosure important. This is recognised in the consultation and is also addressed in question 15.

Q7 Do you agree that firms not yet setting climate-related targets must explain why not? If not, what alternative approach would you prefer and why?

We support a 'comply or explain' approach.

It is also important to consider the validity of climate-related targets to be applied. Adopting a comply or explain rule must be matched by creating suitable metrics and targets for the asset class concerned. Our proposals for the real estate asset class are set out in our response to question 11.

Q8 Do you agree with our proposals for AFMs that delegate investment management services to third-party portfolio managers? If not, what alternative approach would you prefer and why?

We have no comments, for the reason noted above.

Q9 Do you agree with our proposals for asset owners to cross-refer to group-level, third-party or delegate reports, where relevant? If not, what alternative approach would you prefer and why?

We have no comments, for the reason noted above.

Q10 Do you agree with our proposed requirements for product or portfolio-level disclosures, including the provision of data on underlying holdings and climate-related data to clients on demand? If not, what alternative approach would you prefer and why?

We support transparency at the product or portfolio level.

We have reservations about two aspects of this:

- There are only two levels of disclosure, publicly on a firm's website or, where firms provide discretionary portfolio management services to individuals or institutional investors, information can be provided on request on an annual basis. For product-level disclosure, more generally for products other than for retail investors, there will be regular reporting to investors, but it is not public on the firm's website. It would seem to us to be inappropriate for ESG performance data for a product to be public when other performance data is not. The way in which ESG disclosure is made to investors should be consistent with the product's investor reporting more generally.

- The practicality of disclosure of individual holdings within a product or portfolio will be highly dependent upon the data to be provided and the nature of the underlying investments. For real estate, providing data on a building-by-building basis might be impractical. By way of example, a fund investing in residential property may own thousands of dwellings.

We thank that standardised approaches for dealing with 'on request' information provision can be achieved and think this can best be delivered by industry trade organisations.

We would hope that these concerns could be addressed through the process of ongoing dialogue proposed by the FCA.

Q11 Do you agree with the list of core metrics, including the timeframes for disclosure? If not, what alternative metrics and timeframes would you prefer and why?

The core metrics adopt the TCFD recommendations, which as noted in our General comments are designed for funds investing in equities. In our view, these metrics are not suitable for investments in real estate so AREF and the IPF, with the support of CBRE, have produced a paper that proposes an approach using the existing CRREM (Carbon Risk Real Estate Monitor) tools. This paper, which has been shared with various real estate industry bodies, is enclosed as an appendix to our response. We hope that you agree that the recommendations made are sensible, and we and other real estate industry bodies would be happy to work with the FCA to develop this further.

Q12 Do you agree that firms should calculate metrics marked with an asterisk according to both formulas set out in columns A and B of Appendix 3? If not, please explain why, including any challenges in reporting in accordance with either or both regimes.

We are concerned that having to report under both sets of metrics will place unreasonable burden on asset managers. As noted in our General comments the original RTS for the SFDR, much like the TCFD, did not have appropriate measures for real estate, being designed with equities in mind. Following feedback from real estate industry bodies, the revised RTS included real estate specific measures, although these remain somewhat problematic. Further revisions to the RTS are awaited.

We recognise that, in practice, many UK managers with funds reporting under TCFD, will also have to provide SFDR data to European investors.

If firms do not have clients within the SFDR, there would not appear to be any reason for them to report based on the SFDR. It would seem to us that SFDR reporting should only be required when needed, perhaps on an 'on demand' basis as set out in question 10. As we have already commented in our response to questions 4 and 11, we do not believe these metrics are suitable for investment in real estate and have suggested alternative metrics using the CCREM tool as the base.

Q13 Do you agree that, subject to the final TCFD guidance being broadly consistent with that proposed in the current consultation, our proposed rules and guidance should refer to:
a. The TCFD Final Report and TCFD Annex in their updated versions, once finalised
b. The TCFD's proposed guidance on metrics, targets and transition plans and the proposed technical supplement on measuring portfolio alignment

We agree with both a. and b., provided that the metrics used are appropriate for real estate, as set out in our response to questions 4 and 11.

Q14 Do you agree with our approach to additional metrics and targets? If not, what alternatives would you suggest and why?

For real estate, we would suggest that the additional metrics are based on the CRREM tools as set out in the paper included as an appendix to this response.

We have significant reservations about the use of the term 'best efforts' and would suggest instead reference to industry standards for the relevant asset class. See also our response to question 4.

Q15 Do you agree with our approach to governance, strategy and risk management, including scenario analysis at product or portfolio-level? If not, what alternative approach would you prefer and why?

As set out in our answer to question 6, the larger investment managers to whom the proposals will apply, are typically managing a variety of different asset types, the characteristics of which will vary significantly. The entity level disclosure may therefore cover a broad range of approaches, which makes portfolio and product disclosure important.

Q16 What form(s) could quantitative scenario analysis outputs at product or portfolio-level take? What do you consider the cost and feasibility of producing such outputs might be? How useful would such outputs be for users' decision-making?

As stated in our response to question 6, we regard scenario analysis as one of the most important elements of the climate-related disclosures. This should consider both different climate-related scenarios and different business scenarios. At this stage, we are not in a position to comment on what form quantitative scenario analysis outputs at product or portfolio-level should take, but we would be happy to work with other real estate industry trade bodies to develop a best practice.

Q17 Do you agree with our proposed approach that would require certain firms to provide product or portfolio level information to clients on request? If not, what approach and what types of clients would you prefer and why?

As set out in our answer to question 10, we support transparency at the product or portfolio level.

We have reservations about two aspects of this:

- There are only two levels of disclosure, publicly on a firm's website or, where firms provide discretionary portfolio management services to individuals or institutional investors, information can be provided on request on an annual basis. For product-level disclosure, more generally for products other than for retail investors, there will be regular reporting to investors, but it is not public on the firm's website. It would seem to us to be inappropriate for ESG performance data for a product to be public when other performance data is not. The way in which ESG disclosure is made to investors should be consistent with the product's investor reporting more generally.

- The practicality of disclosure of individual holdings within a product or portfolio will be highly dependent upon the data to be provided and the nature of the underlying investments. For real estate, providing data on a building-by-building basis might be impractical. By way of example, a fund investing in residential property may own thousands of dwellings.

As set out in our response to question 10, we think that standardised approaches for dealing with 'on request' information provision can be achieved and think this can best be delivered by industry trade organisations.

We would hope that these concerns could be addressed through the process of ongoing dialogue proposed by the FCA.

Q18 Do you agree with our proposed approach for life insurers when mirroring an external asset manager's strategy? If not, what alternative approach would you prefer and why?

We have no comments, for the reason noted above.

Q19 Do you agree with our specific proposals for asset owners, including the proposed threshold to exclude the smallest default schemes? If not, what alternatives would you prefer and why?

We have no comments, for the reason noted above.

Q20 Do you agree with the analysis in our CBA? If not, we welcome feedback in relation to the one-off and ongoing costs you expect to incur and the potential benefits you envisage. Contextual information about your firm's size and structure would be helpful.

The time and the hourly rates the FCA has assumed for the familiarisation by asset managers and the compliance teams to the proposals and then the legal review by lawyers are far too low and unrealistic given this is a complex and technical area – see paragraphs 36 and 37 of Annex 2. The CBA also does not address an alternative threshold level so that a comparison can be made if, for example, a lower threshold was used initially. The fact that no costing of the benefits has been carried out is, we think, a failure – see paragraph 26 and paragraph 44 of Annex 2. It would also be useful to know if the FCA had any information from DWP as to the costs and benefits in relation to the DWP proposals – see paragraph 5, which does not include reference to DWP but the consultation itself refers in several places to the DWP proposals and their progress. We do not agree with the implied conclusion in paragraph 45 of annex 2 that, as the costs are low relative to the value of the assets covered, they are not a significant amount.

Please do contact me should you wish to discuss any of the above in further detail.

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