Investment Property Forum

Investment Property Forum
Hana Workspaces
70 St. Mary Axe
London EC3A 8BE

email ipfoffice@ipf.org.uk web www.ipf.org.uk

Sue Forster
email sforster@ipf.org.uk tel 07880 729624

By email: dp21-04@fca.org.uk

7 January 2022

Discussion Paper DP21/4: Sustainability Disclosure Requirements (SDR) and investment labels

The Investment Property Forum (IPF) welcomes the opportunity to respond to the above Discussion Paper.

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 (established in 2006), 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.

We are 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.

IPF responses to the questions posed in DP21/4

Q1: What are your views on the tiered approach set out in Figure 2? We welcome views on any concerns and/or practical challenges.

In general, we agree that retail investors are likely to gain confidence from a standardised and objective set of product labels, behind which it is key to have clear criteria to enable consistency and therefore transparency by which consumers and institutional investors can make meaningful comparisons. We would make the following observations:

- The criteria should be appropriate for the asset class. As identified in our response to consultation CP21/17, there is a concern that ESG metrics are designed for investments in listed securities and do not take account of the specific attributes of other asset classes, and in particular the real estate asset. Product labels for real estate funds will need to be relevant, i.e. balanced and proportionate, for real estate as an asset class.

- In the context of CP21/17, we note the recent publication of FCA policy statement PS21/24. This comments "firms may wish to refer to sector-specific guidance or best practice to determine which other metrics to disclose. For example, respondents engaged in real estate investment activity pointed to the Global Real Estate Sustainability Benchmark metrics and the Carbon Risk Real Estate Monitor tool". Further consideration needs to be given to what is an additional disclosure and what is a possible means for meeting the mandatory disclosure requirements.

- We welcome the additional disclosure layer for those retail investors who wish to dig further. Some types of institutional investor, notably defined contribution (DC) pension schemes, invest in non-

UCITS retail schemes (NURS) in which retail investors also invest. It is therefore important that funds can provide the disclosures for retail investors and for institutional investors. For DC pension schemes, it is essential that the information provided by the investment fund matches the requirements for the pensions schemes set out by the Department of Work & Pensions (DWP) and that the information to be provided is sufficiently standardised in order that the pension schemes, and other institutional investors, can aggregate the data and make meaningful comparisons. The IPF has also made this point in our response to the DWP consultation that closed yesterday, 6 January 2022. We welcome the ongoing dialogue between the FCA and DWP.

- We think it is important that there is consistency between assets classes so that different funds can be compared and their results aggregated by investors.
- We would strongly recommend working with the TCFD to ensure international comparability. We welcome the plans to ensure mapping to the EU SFDR and support the work that The Association of Real Estate Funds (AREF) has done in this area.
- Appropriate measures and metrics for real estate, which are consistent with other asset classes will also be important for multi-asset funds. We refer you also to our response to Question 17.
- A practical challenge to the proposed approach is the diverse nature of assets and the need to ensure consistency.

Q2: Which firms and products should be in scope of requirements for labels and disclosures? We particularly welcome views on whether labels would be more appropriate for certain types of product than for others, please provide examples.

To be a success, the regime needs to cover as broad a range of products as possible. Many real estate fund managers operate at smaller scale. This may also be the case for niche impact investment strategies. It is therefore essential to consider proportionality to ensure that smaller managers are not debarred by cost.

Q3: Which aspects of these initiatives, or any others, would be particularly useful to consider (for example in defining terms such as responsible, sustainable and impact) and how best should we engage with them?

We strongly agree with the suggestion that the metrics should utilise existing, publicly available tools and frameworks. We refer you to the appendix provided in our response to FCA CP 21/17, enclosed for reference, which highlights that an alternative metric for the real estate asset class needs to be considered, such as the Carbon Risk Real Estate Monitor tool. Clarity and consistency is to be welcomed.

Q4: Do you agree with the labelling and classification system set out in Figure 3, including the design principles we have considered and mapping to SFDR? We welcome views on further considerations and/or challenges.

We agree with the importance of compatibility with the EU SFDR. We understand that AREF has done work on this, which is set out in an appendix to its response to this discussion paper.

A challenge however is having too many reporting frameworks, which then places an onerous burden on asset managers.

Q5: What are your views on 'entry-level' criteria, set at the relevant entity level, before products can be considered 'Responsible' or 'Sustainable'? We welcome views on what the potential criteria could be and whether a higher entity-level standard should be applied for 'Sustainable' products. We also welcome feedback on potential challenges with this approach.

Whilst we agree in principle with 'entry-level' criteria to apply to the fund manager, there are two important caveats:

- As indicated in our response to question 2, many real estate fund managers operate at smaller scale. This may also be the case for niche impact investment strategies. It is therefore essential to consider proportionality to ensure that smaller managers are not debarred by cost.
- In an increasingly global investment market, we believe that any criteria should use internationally recognised standards.

Q6: What do you consider to be the appropriate balance between principles and prescription in defining the criteria for sustainable product classification? We welcome examples of quantifiable, measurable thresholds and criteria.

We favour a principles-based approach as this would appear to us to have the flexibility to accommodate a wide variety of different investment managers, asset classes and products. We would hope that detailed prescription would only be required in limited circumstances and, where treatment is prescriptive, it needs to reflect the characteristics of different asset classes. In view of this, rather than detailed regulatory prescription, consideration should also be given to standards established by industry trade bodies. For real estate as an asset class, UK and European trade bodies are already working together to set industry standards and will be engaging in dialogue with the FCA and DWP.

Q7: Do you agree with these high-level features of impact investing? If not, why not? Please explain, with reference to the following characteristics:

• intentionality
• return expectations
• impact measurement
• additionality
• other characteristics that an impact product should have

We agree that these are sensible features to consider. The challenge will be in the detail. This all links to how positive, social environmental impact is defined and measured. Real estate industry bodies have been discussing how this might apply to real estate as an asset class. From a regulatory perspective, it needs to be decided how much detail is to be provided to definitions and how much will be left to be determined by best practice established by industry trade bodies and equivalent. This is also relevant to our answers to questions 8, 9 and 10.

Q8: What are your views on our treatment of transitioning assets for:

a: the inclusion of a sub-category of 'Transitioning' funds under the 'Sustainable' label?

b: possible minimum criteria, including minimum allocation thresholds, for 'Sustainable' funds in either sub-category?

This is a complex but hugely important area for real estate as an asset class. The industry is currently grappling with the challenge of embodied carbon across the whole lifecycle of a building. In order to decarbonise the built environment, re-using and improving the carbon intensity of existing buildings is going to be more important than the building of new, 'greener' assets. The treatment of such 'transitioning' investments will be crucial. We suggest that this should be part of the ongoing dialogue with the real estate industry trade bodies to ensure that appropriate definitions are developed.

Q9: What are your views on potential criteria for 'Responsible' investment products?

We are not clear how this works in practice, particularly for real estate as an asset class. An increasing number of asset managers are becoming signatories to the Principles for Responsible Investment (PRI), and we therefore feel that strong alignment with this is essential.

Q10: Do you agree that there are types of products for which sustainability factors, objectives and characteristics may not be relevant or considered? If not, why not? How would you describe or label such products?

It is hard to envisage real estate investment products for which sustainability factors, objectives and characteristics may not be relevant or considered. However, such funds may nevertheless still not promote themselves as sustainable as the expectation for real estate as an asset class is that products that are promoted as sustainable will do more than merely 'consider' sustainability factors, objectives and characteristics

Further thought needs to be given as to how this should apply to real estate as an asset class.

Q11: How do you consider products tracking Climate Transition and Paris-aligned benchmarks should be classified?

We understand that these are benchmarks for listed securities and are not therefore relevant for real estate as an asset class.

Q12: What do you consider the role of derivatives, short-selling and securities lending to be in sustainable investing? Please explain your views

We are not able to comment on this question.

Q13: What are your views on streamlining disclosure requirements under TCFD and SDR, and are there any jurisdictional or other limitations we should consider?

We agree that TCFD is the appropriate set of requirements but, as addressed in our response to CP21/17, consideration is needed as to the appropriate metrics for the real estate asset, for which we believe CRREM is the appropriate tool – again, please see enclosed the annex to our response to CP21/17. We have addressed this in more detail in our response to question 17.

Q14: What are your views on consumer-facing disclosures, including the content and any considerations on location, format (e.g. an 'ESG factsheet') and scope?

The consumer-facing disclosures for retail investors set out in chapter 2 of the discussion paper seem to us to be the appropriate approach.

We support the initiative for education and clear and consistent definitions at all levels.

Q15: What are your views on product-level disclosures, including structure, content, alignment with SFDR and degree of prescription?

As outlined earlier in the discussion paper, the detailed disclosures are expected to be relevant for institutional investors. We would expect such investors to have their own views of appropriate disclosures. They are also active participants in industry trade bodies. For real estate, and we suspect also other asset classes, we think the development of best practice and industry standards is a more appropriate route than regulation to establishing detailed disclosures. Standardisation is, however, necessary to avoid duplicative reporting as different investors set slightly different requirements.

Q16: What are your views on building on TCFD entity-level disclosures, including any practical challenges you may face in broadening to sustainability-related disclosures?

We agree that investors and investment managers are increasingly global in their outlook and operations. Aligning with the TCFD and, in due course, the ISSB appears to us to be the most appropriate way of achieving this.

Please see also our response to question 17.

Q17: How can we best ensure alignment with requirements in the EU and other jurisdictions, as well as with the forthcoming ISSB standard? Please explain any practical or other considerations.

We agree that compatibility with international measures is extremely important. This is at a very early stage even for investments in listed securities where standards are most advanced. Applicability to alternative asset classes, including real estate, is less advanced. Real estate industry bodies are in discussion with the TCFD secretariat regarding the design of suitable metrics for the asset class. We would hope that this will produce an internationally agreed approach. A possible approach to alignment between the FCA TCFD proposals and the EU SFDR was set out in an appendix to our response to FCA consultation CP21/17 with reference to the use of CRREM being the appropriate tool for this asset class. This is enclosed for reference. We anticipate that this will be discussed at the forthcoming meeting with the FCA organised by AREF in which the IPF will be participating.

The first ISSB standard has been published as an initial draft but has not yet been issued for formal consultation. It is extremely detailed and will be subject to extensive discussion in due course. We would repeat our comment regarding proportionality.

Q18: What are your views on the roles of other market participants in communicating sustainability-related information along the investment chain?

Although the commentary is framed in the context of retail distribution channels, we think that this is a broader issue and also affects institutional investors. As set out in our response to question 1, for DC pension schemes, it is important that the information provided by the investment fund matches the requirements for the pensions schemes set out by the Department of Work & Pensions (DWP) and that the information to be provided is sufficiently standardised that the pension schemes, and other institutional investors, can aggregate the data. The IPF has also made this point in our response to the DWP consultation that closed yesterday, 6 January 2022. We welcome the ongoing dialogue between the FCA and DWP. This challenge arises for other institutional investors, intermediary products such as fund of funds for institutional and retail investors and intermediaries more generally.

In relation specifically to retail distribution, we suggest that the requirements are kept consistent with EU MiFID requirements.

We believe that further work is required in this area.

Q19: Do you consider that there is a role for third-party verification of the proposed approach to disclosures, product classification and labelling and organisational arrangements of product providers? Do you consider that the role may be clearer for certain types of products than others?

Third-party verification could add credibility to the disclosures and it may be appropriate to make this mandatory in some circumstances at some point in the future. However, the benefits of third-party verification will depend on the credibility of the verifiers themselves. If the verification process is not itself regarded as credible, this is likely to be damaging rather than beneficial. We would therefore suggest:

- Further thought is given to what third-party verification might be appropriate, who is suitably qualified to provide it and how this can be supervised;
- Consideration as to what level of verification, if any, should be mandatory and what should be left to be adopted as appropriate in the market. In other areas, third-party verification has developed successfully in response to market demand from institutional investors.
- If third-party verification is to be mandatory, as we have noted in our responses to other questions, many real estate fund managers operate at smaller scale. This may also be the case for niche impact investment strategies. It is therefore important to consider proportionality to ensure that such managers are not debarred by cost.
- For many specialist products, including real estate, industry trade bodies already set standards and have verification processes in other aspects of fund operation. This, and the way it is likely to evolve in the future, should be taken into account in consideration of third-party verification requirements.

Q20: What approaches would you consider to be most effective in measuring the impact of our measures, including both regulatory and market-led approaches, and should disclosures be provided in a machine readable format to better enable data collection and analysis?

We are not able to comment on the most effective approaches at this stage.

In respect of disclosures being provided in a machine-readable format to better enable data collection and analysis, we would hope that a common-sense approach will be followed, using examples of data currently provided in a machine-readable format to determine where this is appropriate.

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

Sue Forster
Chief Executive, Investment Property Forum

NOTE: File attached.
Appendix - Metrics for Commercial Real Estate ("CRE") - Alignment in response to FCA CP21/17.