INREV Response to the ISSB Consultation

22 July 2022

About INREV: the voice of the European non-listed real estate investment industry

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. We provide guidance, research and information related to the development and harmonisation of professional standards, reporting guidelines and corporate governance within the non-listed property funds industry across Europe.

INREV currently has approximately 491 members. Our member base includes institutional investors from around the globe including pension funds, insurance companies and sovereign wealth funds, as well as investment banks, fund managers, fund of funds managers and advisors representing all facets of investing into non-listed real estate vehicles in the UK and the rest of Europe. Our fund manager members manage more than 500 non-listed real estate investment funds, as well as joint ventures, club deals and separate accounts for institutional investors.

The INREV Guidelines provide a sound basis for consistent and detailed information exchange and reporting to investors. The Guidelines are organised into nine modules, including the INREV Reporting Guidelines. The Reporting module sets the standard for the transparent investment vehicle and forms the backbone of the INREV Guidelines. The sustainability reporting guidelines constitute an important part of the module.

On 13 April 2022, INREV, jointly with several other industry associations, submitted a proposal to the UK's Financial Conduct Authority (FCA) on ESG real estate metrics. Please find enclosed a copy of the document (ATT1), if the ISSB would be interested in the details of ESG related considerations of the industry.

Overall Feedback

INREV welcomes the opportunity to provide feedback on the International Sustainability Standards Board's (ISSB) exposure drafts for the General Sustainability Related Disclosure (IFRS S1) and Climate Related Disclosure (IFRS S2).

Our response sets out our high-level views on the ISSB's consultation on the IFRS S1 and IFRS S2. We considered the ISSB's proposals (across both documents) on the basis of the real estate industry's view on the sustainability disclosure. We have also responded to some of the detailed questions.

Objective

INREV supports the objective of the ISSB to provide a global comprehensive baseline of sustainability-related disclosure standards that provide investors and other financial market participants with information about companies' sustainability-related risks and opportunities to help them make informed decisions.

INREV therefore welcomes the emphasis on the assumption that there is a connection between sustainability-related information and financial information which is particularly important for investors' assessment of a company's enterprise value. Designing standards in a way that recognises these

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connections effectively is a key benefit of bringing sustainability-related and financial reporting standards under the same standard-setting body.

However, we recommend the ISSB further clarifies the reason behind the use of proposed drafts. Is the Board aiming to develop an additional standard for sustainability and climate related disclosure or provide clarity on connectivity between climate- and sustainability-related disclosures and information in the financial statements? Considering the number of frameworks already available in the market, we suggest aligning with the existing frameworks as much as possible and clarifying the additional value aimed with the proposed standards.

In addition, we suggest the ISSB supporting the disclosure standards with clear examples as has been done for other IFRS standards. See our detailed answer for the area where we think an example would be useful.

Adopted Frameworks

The proposed standards were built upon the recommendations of the TCFD and incorporate disclosure requirements derived from SASB Standards. We support the ISSB's proposal to determine a global baseline that builds from the TCFD's globally accepted recommendations – both in the structure of the General Requirements, and in the specific Climate-related Requirements. We also support the incorporation of industry-based content drawn from SASB Standards in the exposure drafts.

We recommend the ISSB to further assess and facilitate interoperability with other existing standards or regulations to ensure a broader baseline and provide comparability of the standards globally. We are aware that the ISSB is collaborating with the Global Reporting Initiative (GRI); we encourage the ISSB to continue to work closely with the GRI and address the alignment level of the exposure drafts with the conceptual framework and standards provided by the GRI. We also encourage ISSB to consider the recent regulations concerning sustainability disclosures, such as SFDR and EU Sustainable Finance Taxonomy in the EU and/or the SEC rules on ESG disclosure in the US.

Considering the fragmentation of ESG reporting frameworks and differences between regional regulatory approaches and varying data requirements, the ISSB should consider how to align the proposed standards further to make them as consistent as International Financial Reporting Standards. It is especially important for firms that have operations in multiple jurisdictions.

Flexibility on Reporting Criteria

While we strongly support the ambition in the exposure drafts, we recognise that the real estate industry has a range of experience in sustainability and climate related disclosure dependent upon the size of organisation, its jurisdiction, access to data, etc. We therefore encourage the ISSB to consider potential opportunities to assist on a more inclusive, consistent and timely adoption of the global baseline by providing certain flexibility. For example, many industry organisations may not yet have the capability, past experience or data from their value chain relationships to be able to effectively report on their Scope 3 emissions. For this reason, we believe that some limited flexibility could be considered for this element.

Materiality Approach

More generally, we acknowledge and welcome the steps taken to align the definition of materiality in the exposure drafts with the Conceptual Framework for Financial Reporting. This will help to set a familiar reference point for reporters and promote connectivity.

With regard to the materiality definition used in the exposure drafts, we support ISSB consideration of the importance of frequency of materiality assessments. Although it could be considered that material topics don't change significantly from one year to the next, an entity should consider if it is necessary to reassess the materiality judgements. It is important to find a frequency that matches the needs of the investment and to have processes for situations when issues may change more quickly than usual. Having an on-going assessment process that captures emerging risks, opportunities and stakeholder views across the business is more important than performing a detailed reassessment at regular intervals.

We would like to highlight that the exposure drafts are missing the double materiality approach (recognised by GRI and the EU regulations, such as SFDR). The definition of materiality in IFRS S1 assumes that the only sustainability information investors use to make investment decisions is sustainability-related financial information. However many investors need information on the impacts on economies, society and the environment together with the information on the financial implications of sustainable development issues. The double materiality approach acknowledges the fact that risks and opportunities can be material from both a financial and non-financial perspective, and both should be considered to get a complete overview of the material issues affecting the company.

The ISSB could also consider providing further guidance to preparers on how to carry out its materiality assessments in practice.

Our response to Questions 8 provides further details on the materiality approach.

Detailed Feedback

Answer to Question 1 – Overall Approach

While the message on disclosure of such risks and opportunities is clear across the standard, it would be helpful to provide an example of sustainability risks and how they can be quantified as well as how impact on value can be estimated by users on the basis of their financial information.

On another note, the exposure drafts provide details on climate related action and clearly explain how to calculate impact of climate related risks; however, they need more clarification and details on other sustainability risk topics. Although climate change is the most urgent topic, we recommend assessing other sustainability aspects on both environmental (e.g., energy consumption, biodiversity) and social aspects (e.g., stakeholder engagement).

Answer to Question 3 – Scope

The proposals in the Exposure Draft could be used by entities that prepare their general purpose financial statements in accordance with any jurisdiction's GAAP.

However, it is important to acknowledge the differences in local GAAPs, i.e., different local GAAPs might have different standards and financial impact would be recognised differently. The proposed standards could be transferred to local GAAPs by taking into account their differences. It may require some amendments and introduction of new standard where necessary.

We also suggest supporting local GAAPs with clear examples on how to quantify and/or estimate the impact of sustainability risks on financial data and enterprise value.

Answer to Question 8 - Materiality

Although exposure draft provided definition of sustainability related risks and opportunities, clearer guidance is required in:

- explanation of indicators of SASB materiality map/non-mandatory guidance including which indicators are mandatory or voluntary to be reported,
- explanation whether the indicators should be qualitative/quantitative,
- explanation of differentiation between SASB disclosure topics and SASB questions-metrics within the disclosure topics,
- some of the SASB questions-metrics are relevant to US entities, therefore explanation on how those metrics should be treated by entities in EU/other countries,
- guidance on how industry classification of an entity should be identified to find material ESG disclosure topics,
- the most recent pronouncements of other standard-setting bodies whose requirements meet the needs of users of general-purpose financial reporting, the alignment level with other standards and how indicators from other standards can be applied,
- for the sustainability-related risks and opportunities identified by entities operating in the same industries or geographies: how entities operating in the same industries are going to be identified and which sustainability risks and opportunities from those industries are going to be used/selected,
- how materiality should be used if an entity selects standard-setting body without materiality framework,
- what materiality means when it comes to social and environmental issues,
- concrete examples of sustainability-related financial information, with an explanation which indicators should be disclosed and how they need to be applied for every case described in paragraph 51,
- how fairness of the judgement to determine material sustainability-related financial information in the context of their business circumstances is going to be identified – paragraph 53-54.

To make it more easier to understand, we suggest the ISSB supports the materiality approach with practical examples of material items showing the influence on decision making, such as geographical or segmental materiality aggregation and disaggregation etc.

In addition, it should be required to disclose its process of materiality assessment and how materiality judgement is carried by its management, including the determination of materiality topics.

Answer to Question 15 – Digital Reporting

We suggest the ISSB considering the characteristics of different industries when developing such questionnaires.

Answer to Question 16 – Costs, Benefits and Likely Effects

The ISSB should take into account that costs might change depending on the size and the ESG governance framework of an entity. It is likely that the cost would be higher for those entities that are at the beginning of their ESG journey compared with entities that are already fully compliant and have proper dedicated sustainability teams.