Consultation Response

Disclosure of climate related financial risk

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Response by the Royal Institution of Chartered Surveyors (RICS).

RICS®

Introduction

The Royal Institution of Chartered Surveyors (RICS) is delighted to have the opportunity to respond to the Basel Committee on Banking Supervision's consultative document on the disclosure of climate related financial risks.

Established in 1868, RICS is the largest organisation of its kind for professionals in property, construction, land, and related environmental issues, setting and upholding professional standards for 125,000 qualified professionals and over 10,000 firms. RICS regulates both its individual qualified professionals and those firms that have registered for regulation by RICS.

Over 80,000 of our qualified professionals work in the UK, where our goal is to deliver a healthy and vibrant property and land sector as a key pillar of a thriving economy while addressing the need for the creation of green, safe communities.

We are not a trade body; we do not represent any sectional interest, and under the terms of our Royal Charter the advice and leadership we offer is always in the public interest.

Response

We welcome the Basel Committee on Banking Supervision's public consultation on a Pillar 3 disclosure framework for climate-related financial risks.

Our comments will aim to clarify both the challenges and opportunities surrounding the disclosure of climate-related financial risks within the global banking system in relation to real estate. We will provide insights that highlight the complexities and solutions in this sector. Our comments have been provided in general terms and not in response to the specific questions.

Firstly, it is worth highlighting that this initiative aligns with our commitment to enhancing transparency and addressing climate-related risks within the real estate sector. We appreciate the Committee's recognition of the need for flexibility in disclosure requirements, considering the evolving nature of climate-related data and we support the goals of collaborating to create and use international standards promoting stability while understanding the need to transition. The built environment contributes 40% of the world's carbon emissions. We cannot tackle global emissions without substantially reducing embodied and operational emissions from buildings and infrastructure. There has been a growing movement towards reporting and disclosing sustainability-related financial information and climate-related risks over recent years. At the 2021 COP26 conference, the IFRS foundation announced the creation of the International Sustainability Standards Board and consulted on proposals that create a comprehensive global baseline of sustainability disclosures, Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and Exposure Draft IFRS S2 Climate-related Disclosures, effective from January 2024.

Any new disclosure requirements should be considered within the landscape of those already in place, with appropriate synergies and efficiencies created. We are glad that the consultation document references the need to complement the IFRS/ISSB standards. We also note the Committee is *'of the view that a future Pillar 3 framework should complement parallel disclosure initiatives under way by other standard-setting bodies and jurisdictional authorities',* which we would very much endorse. RICS is a global standard setter and regulator and we set out below relevant standards that could be used to support the suggested objectives.

In addition to being a standard setter, RICS also conducts world renowned surveys into the built environment, including a specific RICS Sustainability Report 2023, which highlights key outcomes from our surveys on the issue of sustainability and climate change. The report highlights the issue growing in overall importance over time but with unique challenges in some markets and a variance across global regions in terms of take up and pursuit of climate related objectives. We ask that the committee fully consider variance across global markets and appropriate levels of proportionality.

There is a crucial need to distinguish corporate and asset-level disclosures and the interplay between the two. We urge the Committee to focus on the overall objectives and outcomes that will come from the suggested disclosures. For example, to what extent will corporate level disclosures in relation to energy usage help support an asset management strategy that successfully allows for the transition proposed in the consultation.

There has been focus in some ESG related discussions and interventions around newly developed so called “green” assets and investments that are recognised as leading lights within their class. Whilst these form an important part of the overall picture, we suggest that in some cases a much larger question is around transition. In some markets global real estate stocks are mainly older and may be at risk of obsolescence in terms of ESG considerations. Disclosure standards need to encourage and support appropriate investment, retrofit and transition for assets with limited ESG credentials but the improvement of which can provide great benefits. Conversely disclosures should not encourage disinvestment or abandonment of assets that do not meet climate related objectives, where the superior outcome would be investment in and transition of that asset.

Although a number of RICS members work for lenders and financial institutions, the majority of our members and regulated firms provide services to companies, organisations and government across a number of disciplines such as building surveying, cost consultancy, valuation and wider advice in relation to land, real estate, resources, businesses and infrastructure. The proposed disclosures fall on banks at a corporate entity level. External service providers such as RICS members and regulated firms can support banks with their requirements, but it should not be assumed that this is implicit to the work already undertaken.

Whilst we recognise the need to be forward looking in this space, we urge caution around absolute reliance on forecasting and prediction. We note that these proposals are not mandatory at this stage.

RICS as a global standards setter has a number of relevant standards that can support climate related disclosures. These include RICS Valuation - Global Standards ('Red Book'), Whole Life Carbon Assessments (WLCA), and International Building Operations Standards (IBOS). We also produce relevant standards in collaboration with other organisations such as our International Cost Measurement Standards. These standards can enhance reporting and disclosure practices, while consolidating and aligning to limit duplications.

1. Global Red Book (incorporating International Valuation Standards – IVS)

As the integration of climate-related financial risks into property valuations becomes increasingly important, aligning the Pillar 3 framework with the principles outlined in the Global Red Book can enhance its compatibility.

In response to the increasing awareness of how climate change can impact property values, RICS advises valuers to conduct thorough due diligence and analysis of environmental factors. This includes assessing the resilience of properties to climate-related risks such as extreme weather events and rising sea levels and appropriate consideration of transition risk.

2. Whole Life Carbon Assessments (WLCA)

Whole Life Carbon Assessment involves evaluating the carbon emissions associated with a property throughout its entire life cycle, from design, construction and operation to eventual demolition or refurbishment. By considering the carbon footprint of a property over its entire lifespan, stakeholders can make more informed decisions to reduce environmental impacts and enhance sustainability.

3. International Building Operations Standard (IBOS)

IBOS promotes best practices and efficiency in building operations and management, enhancing the performance assets. IBOS covers aspects such as maintenance, energy efficiency, health and safety, and occupant comfort. By adhering to IBOS, building owners and operators can ensure that their properties are managed effectively, leading to improved performance, reduced costs, and enhanced occupant satisfaction.

We recommend that any rules regarding the disclosure of climate-related financial risks align with established frameworks. Standards such as WLCA should be adopted to allow stakeholders to make informed decisions, thus reducing environmental impacts over a property's entire lifespan. Additionally, consideration should be given to tools like IBOS which promotes best practices in building management, which can lead to more sustainable performance. RICS would support working with the Committee to allow integration of existing standards where this is helpful.