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THE FUTURE OF SUSTAINABILITY STANDARDS

A GUIDE FOR REAL ESTATE DECISION-MAKERS

CBRE

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EXECUTIVE SUMMARY & KEY FINDINGS

- As pressure for the corporate world to contribute to social and environmental goals increases, the measurement of that contribution has become more pressing, to ensure that everyone is 'doing their bit' and 'playing by the same rules'. As a result, sustainability reporting standards, conventions and benchmarks are a growth industry.
- To assist real estate decision makers to understand and respond to this rapidly changing scene, this report examines the purposes, scope and ambition of these standards, how they might evolve in future, and how they apply to real estate decision-making.
- There are a wide range of global sustainability reporting standards with different purposes, scope and ambition. Standards may be voluntary or mandatory to follow; they may focus on reporting 'enterprise value' (to the firm doing the reporting) or reporting the firm's contribution to society, or both. They may focus only on climate change; or only on environmental sustainability; or on the whole spectrum of environmental, social and governance issues.
- The range of available standards, of varying scope and detail can be confusing and make it difficult for real estate decision makers to decide which standards they should use both for their own decision-making and risk assessment, and also to support their brand positioning and offer to consumers. These risks include inconsistent, non-comparable or superficial reporting which does not meet their or their customers' needs.
- Furthermore, most such standards are currently voluntary and are open to the charge that firms can simply select the standard that suits the story they wish to tell. But some of the standards are likely to become mandatory. So, some voluntary standards may not turn out to be the basis for future regulation of real estate activity – if so, they risk becoming obsolete as descriptions of environmental performance.
- There is clear evidence, however, of convergence and collaboration in the existing patchwork of global and European standards, which will help clarify choices. The longstanding non-profit bodies who have developed many of the existing voluntary sustainability reporting standards have recognised the need to work together. And the respected organisation IFRS, which already sets global financial accounting standards, has recently entered the debate – an intervention which is likely to prove decisive given the existing influence that IFRS already has.
- Meanwhile, political groupings like the G20 and EU have been developing their own approaches to reporting and definitions through initiatives like the G20's Task Force on Climate-Related Financial Disclosures (TCFD) and the EU Taxonomy respectively. Because of their political origins, these initiatives are likely to lead the debate on mandatory reporting requirements.
- Mandatory reporting is not new – the EU's Non-Financial Reporting Directive already requires large firms to set out certain sustainability metrics in their public reporting. However, the scope and depth of mandatory reporting is very likely to increase, to reflect recommendations like those of the TCFD. Certain G20 nations – most notably the UK – have already said that they will make the TCFD requirements (which were originally voluntary for firms to adopt) mandatory.
- The EU Taxonomy goes further than simply requiring corporate reporting on sustainability. It actively aims to discriminate between economic activities which contribute substantially to sustainability and those which do not. As befits its origins in the 'green' labelling of financial products, the EU Taxonomy is therefore not merely aimed at ensuring that the sustainability of economic activities can all be described in the same way (the traditional aim of sustainability reporting). Rather, the EU Taxonomy aims to cast a whole range of activities as 'not sustainable' in ways which the EU hopes will act as a signal for investors and consumers to avoid those activities.

EXECUTIVE SUMMARY & KEY FINDINGS

- By 2030, CBRE expects that TCFD will be the leading framework for reporting climate change impacts. However, we suggest that TCFD-style reporting will increasingly rely on IFRS standards rather than the existing voluntary global standards, of which we think there will be fewer – or at least, they will be much better coordinated. In Europe, we expect that the EU Taxonomy will act as a leading vehicle for describing (albeit in rather crude binary terms) what counts as a 'green' economic activity. However, this approach is likely to become more sophisticated over time.
- The UK seems likely to act as a leading regulator and influencer on these issues. The obvious short-term prominence of the UK as it hosts the COP26 climate change summit is one. But, in the longer term, the UK's decision to back the TCFD's recommendations; the UK's decision to introduce its own Green Taxonomy (based, at least technically, on the EU Taxonomy); the UK's prominence in global financial services; and the fact that the IFRS is headquartered in London, all suggest that the debate on sustainability standards in the UK will likely foreshadow the global debate.

EXTRA INSIGHT IN THIS REPORT

In boxes scattered throughout this report we've gone into extra detail on the background to some of the key standards and the issues these standards prompt. The boxes cover:

1. A list of the main global sustainability standard-setting bodies, with brief description of their roles.
2. The question of 'scope' – how broader emissions standards look at indirect impacts.
3. A guide to the Task Force on Climate-Related Financial Disclosures (TCFD), looking at what the TCFD says firms should voluntarily report, with examples of TCFD buildings-related reporting.
4. The distinction between technical and political standards – a discussion as to how this isn't always clear-cut.
5. How the EU Taxonomy describes 'sustainable' real estate activities.
6. A discussion illustrating how political sustainability targets can go backwards.
7. The evolution and inter-relationship of global, EU and UK sustainability and climate change reporting standards – infographic.

01

INTRODUCTION: MAKING SENSE OF SUSTAINABILITY REPORTING STANDARDS

As pressure for the corporate world to contribute to social and environmental goals increases, the measurement of that contribution has become more pressing, to ensure that everyone is 'doing their bit' and 'playing by the same rules'. As a result, sustainability reporting standards, conventions and benchmarks are a growth industry.

To assist real estate decision makers to understand and respond to this rapidly changing scene, this report examines the purposes, scope and ambition of these standards, how they might evolve in future, and how they apply to real estate decision-making.

WHAT IS A STANDARD?

In this report we follow the Oxford English Dictionary (OED) definition of a standard as a 'recognised example or principle to which others should conform'.

OED adds that a standard may also be 'a means by which the accuracy or quality of others shall be judged … a required or specified level of excellence.'

So a standard can be either a minimum threshold of achievement, or the means by which we debate whether that threshold has in fact been achieved; or both.

FOCUSING ON REPORTING AND END USER INFORMATION

In this report we frequently focus on the ways in which the achievement of a given level of sustainability is *reported*. This is because policy on sustainability in market economies like the UK is heavily focused on providing better information to the end consumer or investor so that they can make informed ethical choices about what they wish to invest in or consume.

This is especially the case where the Government is reluctant to enforce a certain minimum standard in law or via taxation, but would rather encourage the private sector and civil society to negotiate in the marketplace over what standards are desirable.

CATEGORISING SUSTAINABILITY REPORTING STANDARDS

So sustainability reporting standards ask the firm concerned to prove (to themselves and to society) that they have achieved a given level of sustainability in their operations, to a given level of accuracy.

Sustainability reporting standards may be categorised in a variety of ways:

- **Audience** – reporting is traditionally focused on a firm's managers and investors, and is concerned with the 'enterprise value'. But reporting is now routinely extended to firms' consumers and wider society, and is concerned with the 'social value' that the firm contributes – even if this does nothing for (or even potentially reduces) the 'enterprise value'.
- **Scope** – the topics covered by various sustainability reporting standards and measurement tools vary widely. Some only cover climate change; others cover all aspects of environmental sustainability (including biodiversity, for example); others are wider still and cover non-environmental social sustainability or social responsibility (for example, labour standards, fair trade, or human rights).
- **Level of aggregation** – some standards focus on how to report the sustainability of a firm or investment fund, while others focus on the performance of a specific real estate asset. In this report we focus mainly on firm/fund-level reporting standards. So, for example, a 'green investment fund' might report the total greenhouse gas emissions of its investments, but not the energy efficiency of the individual buildings in which it has invested, nor the standard which was used to measure that energy efficiency. By contrast, a GRESB assessment looks specifically at the sustainability performance of real estate portfolios and assets.
- **Level of compulsion** – many standards are still voluntary, but there are some existing legal requirements to report certain aspects of the environmental performance of both firms and buildings.

Many sustainability standards do not relate specifically to, and were not specifically designed for, real estate; rather, they have usually been borne out of a concern to ensure that the 'green' or 'social' credentials of financial products are clear and legitimate.

. However, as real estate is an asset class which attracts a significant amount of investment, and as real estate is a disproportionate emitter of greenhouse gases, it has inevitably been caught up in the debate.

BOX 1: SUSTAINABILITY REPORTING – THE MAIN GLOBAL SUSTAINABILITY STANDARDS ORGANISATIONS

International Integrated Reporting Council (IIRC) – coalition of regulators, investors, companies, standard setters, and others, aiming to ensure capital allocation and corporate behaviour are aligned to wider goals of financial stability and sustainable development through integrated reporting.

Sustainability Accounting Standards Board (SASB) – develops standards on the financial impacts of sustainability, enabling businesses around the world to identify, manage, and communicate financially material sustainability information to investors.

Global Reporting Initiative (GRI) – independent international organization that helps businesses, governments and others understand and communicate their sustainability impacts. GRI Standards are the world's most widely used for sustainability reporting.

CDP – global non-profit organization helping companies and governments to disclose and reduce their environmental impact. 9,600 companies with over 50% of global market capitalization disclose environmental data through CDP. This includes 84% of FTSE-100 companies.

Climate Disclosure Standards Board (CDSB) – international consortium of business and environmental NGOs aiming to ensure that the global mainstream corporate reporting model equates natural capital with financial capital. Provides a framework for reporting environmental and climate information with the same rigour as financial information so that it is decision-useful and provided via the mainstream corporate report, enhancing the efficient allocation of capital.

International Sustainability Standards Board – a new organisation established under the auspices of the IFRS Foundation (the International Financial Reporting Standard) with the aim of establishing global sustainability standards. Not yet operational.

GHG Protocol – establishes global standards to measure and manage greenhouse gas (GHG) emissions from private and public sector operations, value chains and mitigation actions. GHG Protocol's Corporate Accounting and Reporting Standard provides the accounting platform for virtually every corporate GHG reporting program in the world.

The Partnership for Carbon Accounting Financials (PCAF) has used the GHG Protocol to develop a specific standard for financial institutions to consistently measure and disclose the GHG emissions financed by their loans and investments. This includes direct commercial real estate and residential mortgages.

Principles for Responsible Investment is a UN-sponsored voluntary initiative which supports signatories to implement ethical principles into their investment decisions

Source: Joint statement by CDP, CDSB, SASB, IIRC and GRI (2020), CBRE Research, organisation websites

THE AIMS AND WIDENING SCOPE OF SUSTAINABILITY REPORTING

Although the range of bodies and standards can be confusing, their aims can be fairly easily summarised. Together, they attempt to broadly do just four things.

1. **Report all the things that matter to firms and to society** – which, if they were changed, would make progress towards delivering social or environmental objectives. Often the question of whether something matters is described formally as 'materiality', and the decision on whether or not to report a certain fact relating to sustainability is determined by whether or not it is material to the fortunes of either the firm reporting it, or to wider society, or both.
2. **Simplify description** by combining all the measurements of the things that matter into composite scores, ratings or indices, – for example, the overall sustainability of a building when considering its energy use, water consumption, and employee wellbeing.
3. **Permit comparisons** – use reporting to benchmark the firm against others so we can see who is doing most, or least, to change the things that matter; hence the requirement to report the same things in the same terms – for example reporting energy use in kWh rather than gigajoules, and annually, not quarterly, and including kettles, not just the central heating and lighting.
4. **Assist decision making** – report things in a way that allows different groups of people to make ethical or commercial decisions – for example the firm itself that is doing the reporting, or wider society; this can include decisions about where to 'draw the line' in political target-setting or consumer decisions about what to buy.

While the aims of sustainability reporting are largely agreed, the detail and breadth of that reporting seems likely to get more demanding over time, partly as a response to regulators and civil society repeatedly 'raising the bar'. Sustainability reporting is increasingly wide in scope, covering so-called 'upstream' (supply chain) and 'downstream' (customers) impacts.

For example, in the specific area of greenhouse gas emissions, the GHG Protocol Corporate Standard (see Box 1) categorises emissions into three 'Scopes', described further in Box 2. While direct (Scope 1) emissions are likely to be easiest to measure and influence, there is already a strong demand from CBRE's clients to look beyond this – suggesting that customers of, and investors in, our clients, are already seeing sustainability through a wider lens. We judge that this trend is very unlikely to go into reverse.

BOX 2: 'SCOPE' - BROADER EMISSIONS STANDARDS LOOK AT INDIRECT IMPACTS

- **Scope 1 emissions** are direct emissions from owned or controlled sources – for example a gas-fired boiler within a building owned or rented by the reporting firm.
- **Scope 2 emissions** are the firm's indirect emissions from the generation of purchased energy.
- **Scope 3 emissions** comprise 15 other categories of indirect emissions (not included in scope 2) that occur in the value chain of the reporting firm, including both upstream (supply chain) and downstream emissions (customers). For example, a firm's supplier's business travel is an upstream Scope 3 emission. The recyclability of a firm's product by its purchaser is a downstream Scope 3 emission.

Source: GHG Protocol Corporate Standard

REGULARLY CHANGING, SELF-SELECTING STANDARDS PRESENT RISKS

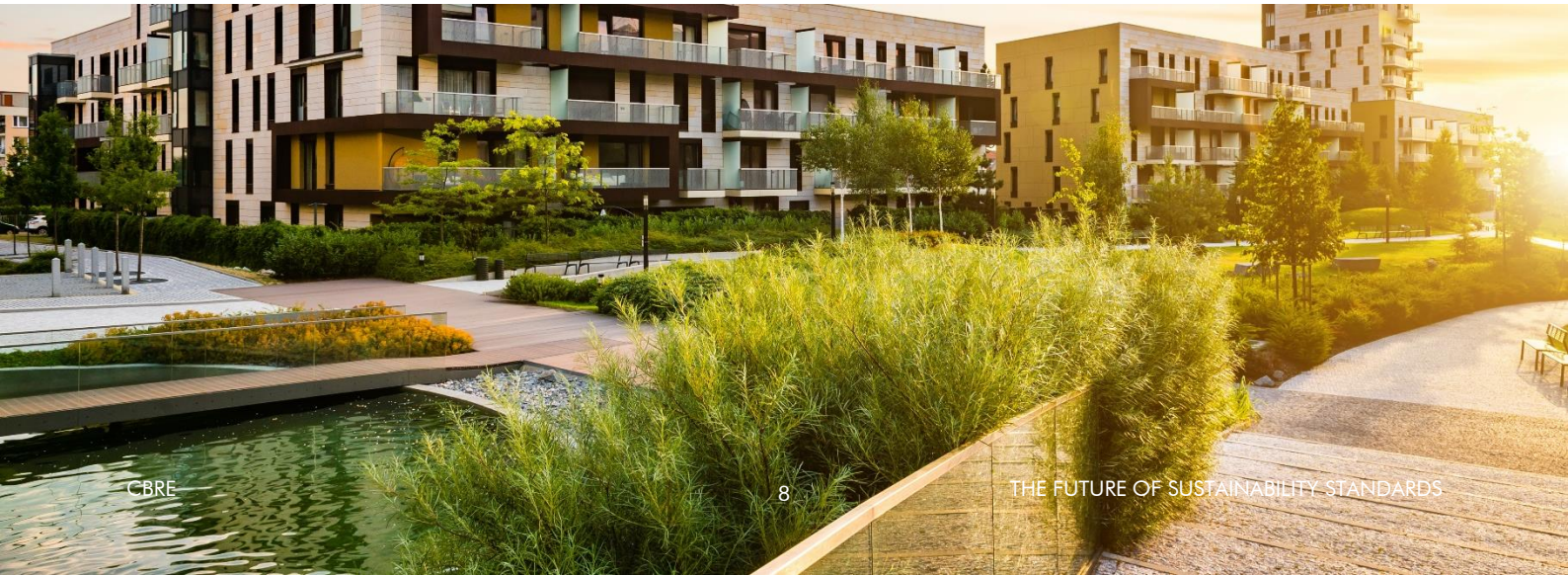
The proliferation of standards is leading to some competition between overlapping standards and the organisations which set them (see Box 1). This can make it difficult for end-users of the information to understand what green certification of an asset really means.

As things stand, issuers or holders of allegedly 'green' assets (whether of green bonds, real estate or anything else) can mostly report whatever they like, to whatever level of detail they like, in whatever terms they like, and claim to be 'green' or 'sustainable'.

For now, firms (including CBRE itself) are entitled to select a standard and a level of disclosure and certification that they think suits their business model – including their reputation and brand positioning – and allow themselves to be judged in the court of public opinion.

However, CBRE has identified a concern among its clients that they may be reporting in insufficient detail or coverage on the sustainability of their operations and assets, or reporting them to the wrong standard, or that they are failing to anticipate future changes in standards. There are concerns that risks arise from not knowing enough about the sustainability of assets, or that assets may become 'stranded' and start to decline in value, as social or regulatory standards become more demanding in future.

This matters partly because landlords and tenants are competing to effectively promote their brand and differentiate themselves from 'less green' products and providers; but also because at some point regulators are also going to need to choose which of these competing standards they wish to adopt, and there is a risk that clients are caught out by adopting a standard which turns out not to be the one by which they will be regulated.



02

ACHIEVING CONSISTENCY AND CONVERGENCE IN VOLUNTARY GLOBAL STANDARDS

This sustainability reporting landscape may already seem complex. Fortunately, just five bodies (CDP, CDSB, IIRC, SASB and GRI – see Box 1) inform the overwhelming majority of sustainability reporting, and all five of them have recently committed to converging their work on a unified global standard.

It seems likely that these organisations' existing work is the best guide to the evolution of future standards. This is because:

- the G20's **Task Force on Climate Change Related Financial Disclosures** (TCFD, 2017) refers extensively to these global standard-setting bodies in setting out the detail of what firms should aim to disclose, and in what terms (see Box 3). Although the TCFD's recommendations are (for now) voluntary for firms to adopt, the TCFD's approach is very likely to become mandatory (see below) – and definitely in the UK.
- the **IFRS Foundation**, perhaps the 'heaviest hitter' of all in the corporate reporting world, has recently proposed to establish a new Sustainability Standards Board aimed at developing sustainability reporting standards. The recent G7 Finance Ministers meeting in the UK welcomed this initiative, and called for the SSB to be established by November 2021. This seems likely.

This dual pressure, from the G20 and the IFRS, seems likely to supplant all of the other main voluntary initiatives, by virtue of IFRS dominance of international accounting practice, including through its subsidiary the International Accounting Standards Board (IASB). The exception is the US, where US GAAP is the more dominant corporate accounting standard.

VOLUNTARY CONSISTENCY TO MANDATORY CONSISTENCY

The pressure to converge standards is also facilitating a gradual shifting in the status of standards in favour of mandatory rather than voluntary standards.

Mandatory reporting is likely (but not inevitably) to also involve a move to greater consistency and comprehensiveness in reporting, based on whatever standards emerge as the consensus.

BOX 3: WHAT THE TCFD SAYS FIRMS SHOULD VOLUNTARILY REPORT – OVERALL, AND SELECTED BUILDING-RELATED METRICS

Governance	Strategy	Risk Management	Metrics
Describe the board's oversight of climate-related risks and opportunities.	Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	Describe the organization's processes for identifying and assessing climate-related risks.	Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
Describe management's role in assessing and managing climate-related risks and opportunities.	Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	Describe the organization's processes for managing climate-related risks.	Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
	Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

TCFD proposed metrics for buildings-related reporting (selected examples)*	Alignment with existing voluntary global standards
Building energy intensity (by occupants or square area)	SASB: IF0402-02 GRI: G4-CRE1 GRESB: Q25.2
Building water intensity (by occupants or square area)	GRI: G4-CRE2 GRESB: Q27.2
GHG emissions intensity from buildings (by occupants or square area) and from new construction and redevelopment	GRI: G4-CRE3/CRE4
Area of buildings, plants or properties located in designated flood hazard areas	GRESB: Q15.1, 15.2 SASB: IF0401-13, 02-13
For each property type, the percentage certified as sustainable (against relevant indices)	GRESB: NC5.2/CA2/Q30.1/Q30.2/Q31

Source: TCFD, 2017
*There are 12 metrics in total, of which 5 are shown here.

Such regulatory action is not new. Large EU firms have been required to comply with the EU's Non-Financial Reporting Directive (NFRD, 2014) to report on certain sustainability-related matters.

Brexit makes no difference to this ongoing requirement in the UK for now. There is no evidence that Brexit will reduce the amount of sustainability reporting required in the UK in future. Indeed, the reverse seems more likely. For example, the UK has already decide to be the first G20 country to make mandatory the voluntary levels of reporting proposed by TCFD (by 2022).

Although the regulatory juggernaut always moves slowly, there is good evidence that the various bodies involved are attempting to coordinate and move together.

For example, the NFRD has recently been updated to reflect the TCFD's recommendations, and the EU's consultation on a new version of the NFRD (Feb 2020) explicitly asked what role there should be in any future version of the NFRD for the existing global standards. Respondents were most strongly in favour of TCFD and GRI influencing the EU's thinking.

Furthermore, the driver for much of the current standards-setting activity is global, because it is based on the requirements of international investment capital and of multinational businesses to tell a single consistent story globally. These economic agents are often making international comparisons (including in making real estate investment or occupation decisions).

So the premium on transparency, using comparable information, is increasing in order to maintain investment flows. That same transparency also permits international political debate and peer pressure.

Governments and firms thus both seem likely to increasingly require compliance with respected international standard-setting bodies, which in turn is likely forcing the whole private sector to use one set of conventions.

03

FROM MANDATORY STANDARDS OF DISCLOSURE TO POLITICAL TARGETS

Requiring firms to all report their activity to the same extent and in the same terms is useful in its own right. But consistency in reporting allows regulators to more easily set legally-binding real estate performance requirements with reference to the agreed terms of the debate.

This can, and does, already happen at national and international level – for example in the EU's minimum energy efficiency standards (MEES), which requires that buildings below a certain EPC rating may not be let or sold. The EPC is the technical standard; the MEES requirement is the political target.

THE LEADING EDGE OF TECHNICAL-STANDARDS-AS-MINIMUM-REQUIREMENTS: THE EU TAXONOMY

The EU Taxonomy, which originates in a desire for consistent eco-labelling of financial products, is probably the world's leading and most sweeping attempt to move beyond simply reporting environmental impacts and into political regulation via that reporting (however, as Box 4 shows, this is not a clear-cut distinction).

The EU Taxonomy aims to categorise a very wide range of economic activities, including real estate development and trading, as either contributing significantly to environmental sustainability or not (other dimensions of sustainability, such as social impact, are not currently included).

The EU Taxonomy makes a 'contributes/does not contribute' binary distinction. So it is more than simply a way of describing environmental performance neutrally. It explicitly aims to label certain levels of environmental performance in an investment asset (which could include the construction or refurbishment of a building) are 'green', and below that line they are 'not green'. For climate change, the line is drawn at the environmental performance that the activity needs to make if the Paris Agreement on emissions reductions is to be achieved.

BOX 4: ARE ALL STANDARDS ACTUALLY POLITICAL?

The distinction between politically-set targets, and technical standards of disclosure and measurement, is not as clear cut as it might seem. It is more a question of degree.

In theory, technical standards are simply an agreement about the terms of the debate, and then it is a matter for politicians to decide where to set the performance bar against the technical standard.

But, in practice, the adoption of one technical standard or another could be the result of not merely scientific or technical measurement, but also political and commercial acceptability. The way a benchmark is weighted, for example, or the definition of certain materials or techniques as 'green' or 'not green' can generate controversy and political lobbying. An apparently innocent technical threshold could disguise the potential for winners and losers on either side of that threshold.

Alternatively, if the benchmark is sponsored or promoted by a particular industry, self-regulation could lead to standards being too low or designed to give the impression that something is 'green' which an independent observer might conclude is nothing of the sort.

So it is more akin to a minimum standard, albeit one whose consequences are for the end user to decide whether they are comfortable with. The intention is clearly to persuade end users to avoid buying goods or services which look 'not green' – and to tighten that definition over time as political acceptability and technical issues allow.

The so-called 'screening criteria' by which environmental sustainability will be defined are gradually becoming clear; the EU has a rolling programme of work to eventually set out detailed criteria on six different aspects of environmental sustainability, but only the 2 biggest have been published to date, both relating to climate change (see Box 5).

Some commentators have argued that the EU Taxonomy's binary 'green/not green' distinction is distortionary and unhelpful. For example, it could cause economic activity to congregate just above the threshold at which it is deemed that the activity is sustainable – rather than where it really needs to be in order to (for example) maximise progress towards emissions reductions.

It is possible that a more refined 'sliding scale' approach could be adopted in the future. However, this seems likely to only happen in the longer term, once the EU has completed the initial work setting out criteria for the four remaining aspects of sustainability.

BOX 5: HOW THE EU TAXONOMY DESCRIBES 'SUSTAINABLE' REAL ESTATE ACTIVITIES

The EU Taxonomy aims to 'define the criteria for determining whether an economic activity qualifies as environmentally sustainable, for the purposes of establishing the degree to which an investment is environmentally sustainable.'

An economic activity qualifies as environmentally sustainable if it 'contributes substantially to one or more environmental objectives' and also 'does not significantly harm any of those objectives.' The environmental objectives are:

a. climate change mitigation;
b. climate change adaptation;
c. the sustainable use and protection of water and marine resources;
d. the transition to a circular economy;
e. pollution prevention and control; and
f. the protection and restoration of biodiversity and ecosystems.

The EU Taxonomy goes on to define in technical detail a set of criteria that economic activities must meet, if they are to be described as making a 'substantial contribution' to environmentally sustainability.

For the construction of a new building, the building only makes a 'substantial contribution' if the building's energy performance (certified using an as-built Energy Performance Certificate (EPC)) is at least 10 % lower than the threshold set for nearly zero-energy buildings by the 2010 EU Energy Performance of Buildings Directive, which was implemented in England and Wales by the Energy Performance of Buildings Regulations 2012. For buildings larger than 5,000 sqm there are further technical requirements.

There are also further requirements for new buildings to meet the test of doing 'no significant harm to any environmental objective'. These include, for example, maximum water consumption rates for showers and taps; avoidance of formaldehyde-producing materials; and not constructing the building on land of high agricultural or biodiversity value in the first place.

The EU Taxonomy also covers real estate purchases. To achieve the 'substantial contribution test' (for buildings built before 2021), the building being purchased must have at least an EPC 'A' rating, or be within the least energy-consuming 15% of the comparable national or regional building stock. For larger buildings there must also be evidence of efficient operation and energy management.

In the meantime, it is becoming clearer which set of global sustainability reporting standards the EU Taxonomy is going to draw on in future, at least as far as climate change is concerned. It seems unlikely that the EU will aim to develop their own conventions. This is because:

- the EU's largest nations – who will be crucial in determining the EU's approach – are already effectively bound to the TCFD approach by virtue of being members of the G20;
- the TCFD refer extensively to the existing voluntary global standards;
- the EU has implemented the TCFD's approach in the NFRD; and
- the EU is keen that any standards set by future versions of the NFRD should wherever possible align with existing global standards.

So, while the EU seems very likely to draw on its own existing relevant standards (such as EPC ratings), over time it seems equally likely that the EU will attempt to stay harmonised with wider global standards – and probably to influence global standards in favour of the European model.

The global standard setting bodies have returned the complement in a recent joint statement aiming to promote coordination and convergence. That statement notes that the EU Taxonomy is leading the debate on using the existing voluntary global standards as the language in which to define minimum requirements.

THE UK'S TAXONOMY WILL BE BASED ON THE EU TAXONOMY – BUT COULD GO FURTHER, FASTER

Following Brexit, the EU's initiative might not seem relevant. But the UK Government has said it will develop its own UK Green Taxonomy. Furthermore, the fine print of that announcement says that the UK version will rely heavily on the scientific metrics of the EU's version, adjusted for the UK's circumstances (whatever that means).

So, for now, it looks like the UK version will follow the strategic direction set by the existing EU initiative.

It is not possible to say, at this stage, whether the UK will need to lag behind the EU's version in order to maintain coherence with it, or whether the UK will in fact advance faster by virtue of not having to agree its approach with 27 other countries.

However, it does seem likely that the underlying technical standards and reporting frameworks will be similar in the UK – not least because of the UK's own leading commitment to TCFD-style reporting, and the fact that the UK Government has welcomed the proposed convergence between the existing voluntary global standards.

BOX 6: POLITICAL SUSTAINABILITY TARGETS CAN GO BACKWARDS

It cannot be assumed that sustainability targets always get tougher, at least in the short term, although consistent reporting makes it easier to do so. Sometimes targets are abandoned or go into reverse.

In 2015, for example, the incoming UK Government ditched the previous Labour Government's target, set in 2006, to ensure all new homes were 'zero carbon' by 2016. Building regulations were to have been the main tool to achieve this target.

Since then, the Government has signed up to the Paris Agreement and placed its 'net zero' commitment into law. So now, 6 years after abandoning the previous 2016 target, the Government has a similar new homes emissions reduction target for 2025, although it's not yet legally binding. This new target – the Future Homes Standard – will eventually require new build homes to have 75% to 80% lower CO2 emissions than those built to current regulatory standards.

So real estate firms are having to not only implement today's regulatory requirements, but second-guess what might come next. It is possible that existing proposals for new regulation could be watered down or even abandoned.

It remains to be seen what might happen after 2025 – and it cannot be assumed that the Future Homes Standard will be implemented as planned. All that we can be certain of at this stage is the end point at which regulatory action must aim – namely, the UK's legally binding emissions reduction targets for 2035 and 2050.

BOX 7: THE EVOLUTION AND INTER-RELATIONSHIP OF GLOBAL, EU AND UK SUSTAINABILITY AND CLIMATE CHANGE REPORTING STANDARDS

EU INITIATIVES

July 2020: EU+UK Non-Financial Reporting Directive (NFRD)

Proposed reforms of the EU's existing mandatory sustainability reporting requirement for large firms are likely to be heavily influenced by existing global standards bodies and the TCFD initiative.

June 2020: The EU Taxonomy

The EU's reporting requirements are being deepened by a new legal threshold defining whether or not firms' activities substantially contribute to environmental sustainability.

GLOBAL INITIATIVES

September 2020:

The five major existing global non-profit sustainability reporting bodies have recognised risk of overlap and confusion and are aiming to converge on a single global standard:

- **Climate Disclosure Standards Board (CDSB)**
- **International Integrated Reporting Council (IIRC)**
- **Sustainability Accounting Standards Board (SASB)**
- **Global Reporting Initiative (GRI)**
- **CDP**

September 2020: International Financial Reporting Standard's Sustainability Standards Board (IFRS SSB)

The existing global organisations are likely to have a role supporting IFRS, the major non-profit financial reporting standards body, which is creating a new Sustainability Standards Board subsidiary.

June 2017: Task Force on Climate Related Financial Disclosures (TCFD)

The global bodies' existing standards were utilised by the TCFD, a G20 political initiative recommending a framework for firms' voluntary reporting on climate change.

UK INITIATIVES

November 2020: The UK Green Taxonomy

Although the UK is no longer in the EU, the UK will nevertheless develop a similar new reporting threshold.

November 2020: UK TCFD roadmap

The UK is among a number of countries saying it will make TCFD levels of disclosure mandatory, and has welcomed the IFRS initiative.

Arrows indicate direction of influence

04

CONCLUSION: A POSSIBLE 2030 SCENARIO

A SLOW CONVERGENCE AND 'SIMPLIFICATION'

Although global sustainability reporting standards and disclosure requirements remain a largely voluntary patchwork, there are clear signs of a convergence and some 'market leaders' in the debate. By definition, a market leader must be a standard which is widely adopted, and the existing sustainability standards appear to be sufficiently widely adopted that it is unlikely any other standard could come into the frame, unless for an entirely new topic or sub-topic.

So the direction of travel, and the likely winners in the standards war, are already becoming clear. It is now potentially just a matter of time before the picture simplifies, aided by pressure from civil society, investors and regulators.

Pressure to simplify will be increased by the reputational risk which real estate and financial service firms already perceive from adopting 'sub-standard standards' which don't offer the transparency, scope or decision-making power of the market leading standards.

Those market leaders will also come under pressure to continue to evolve their standards to ensure they stay relevant and widely adopted. Box 8 sets out our view on the relationships between the major bodies in the debate globally, and the influence of these global bodies on EU and UK policy.

A POSSIBLE 2030 SCENARIO

Our view is that almost all of the existing players have some role to play in the regulatory framework for sustainability reporting in 2030. Below, we explore how we think the debate will play out over the coming decade.

At the global level – In a debate increasingly led by IFRS, we expect that CDP, CDSB, IIRC, SASB, and GRI's approaches and role will be clarified, possibly down to just two sets of standards focusing on enterprise value and social value respectively.

These voluntary bodies are likely, in CBRE's view, to be forced to align with the model for sustainability reporting proposed by the TCFD – at least for climate change disclosures. This is because:

- 'money makes the world go round' and the TCFD is very focused on financial disclosures of enterprise value;
- the G20's sponsorship of TCFD makes it very likely that the world's leading economies will feel obliged to adopt it (as the UK already has); and
- the TCFD itself drew on the existing global standard-setting bodies in setting its detailed recommendations.
- IFRS, while expressing an interest in wider sustainability standards, has said it prefers to initially prioritise reporting and standards relating to climate change.

Standards have so far focused very strongly on climate change. But there are also signs of global standards emerging on other environmental and social issues.

For example, a Task Force on Nature Related Disclosures (TFND) has been established. This group aims to articulate similar principles to those established by TCFD, but for biodiversity rather than climate change. It seems likely that the TNFD's approach will be similar to the TCFD's.

However, TNFD is not a G20 (political) initiative – the key partners are the United Nations and environmental charities. Even G7 Climate Ministers have to date given the TNFD only the weakest of endorsements, so the extent to which it will enjoy the same influence as TCFD remains to be seen. It will report in 2023, suggesting that mandatory implementation of any recommendations is not likely until 2025 at the earliest (and probably much later).

We also expect that existing global sustainability reporting standards will start to include more socially-focussed indicators. Frameworks and standards aimed at social impact will gain more prominence.

Organisations such as Social Value International will become increasingly important in assuring claims made under these certifications, while others such as RICS and GRESB will play a role in helping the industry standardise as the practice of quantifying social impact in real estate evolves.

At the European level – the EU Taxonomy and the NFRD are likely to remain dominant. The EU has a clear programme of work in this area, although it should not be assumed that all EU Member States wish to move at the same pace in developing it, because of the risk that certain sectors in certain countries are instantly labelled as 'not sustainable' leading to international competitive disadvantage (even if this is precisely the point of the initiative).

The evidence suggests that the EU Taxonomy and NFRD are, and will continue to be, strongly influenced by TCFD, GRI, and the UN Guiding Principles Reporting Framework in particular, but also by SASB, CDP, and CDSB (see Box 1).

At the UK level – the EU Taxonomy and TCFD will remain the leading initiatives. The UK's decision to adopt a UK Taxonomy, and to make TCFD reporting mandatory, indicates that the UK's stance on sustainability reporting, remains very similar to the pre-Brexit position. Arguably Brexit makes it likely that the UK will move faster in this area than if the UK had stayed in the EU. This is because:

- the UK is hosting the COP26 climate talks in 2021 and will wish to make political announcements aimed at bolstering its international leadership on the topic;
- getting all 27 EU member states to agree to the evolution of the EU Taxonomy will not be straightforward – there are clear political choices and trade-offs which Member States will need to make;
- the UK has traditionally recognised the importance of transparent and highly-regulated financial products, and will perceive it has a competitive advantage from moving faster in respect of attracting international capital – including real estate capital seeking certifiably 'green' assets to invest in.

The UK Green Taxonomy, therefore, may turn out to be more sophisticated than the EU Taxonomy – in particular, we speculate that it could evolve more quickly beyond a simplistic 'green/not green' binary labelling into a ranking or scoring system.

Furthermore, the UK has recently announced that it will implement a new Sustainable Disclosure Requirement (SDR) on large UK firms which according. There are few details of what this means in practice, though it appears to be a post-Brexit evolution of the NFRD, and some commentators expect that it will reflect both TCFD and TNFD recommendations. The Government says that retail 'green finance' labelling will be based (at least partly) on the SDR.

The UK is also taking a leading role in developing social (rather than environmental) standards. Requirements in the 2012 Public Services (Social Value) Act have prompted the widening of real estate sustainability certifications such as BREEAM to cover social outcomes such as job creation and skills development. Meanwhile, a multitude of different measurement frameworks have been developed for real estate which put a primary social lens on outcomes, including CBRE UK's own forthcoming Social Value Snapshot tool.

More widely, the UK's influence should not be underestimated. New York and London are arguably the largest financial centres in the world. IFRS is headquartered in London. So it is a very powerful driver of international standards for the UK government to require that certain financial products may not be traded in London unless they meet the UK's selected sustainability standards.

With post-Brexit concern about the future of UK financial services still prominent, 'green finance' could be a major growth area that many in the UK will focus on in the coming years, to fill the gap which it is perceived Brexit may create in the UK's financial services offer.

But this will only be the case if the UK talks a language of standards and reporting that other major economies and sources of capital can easily understand.

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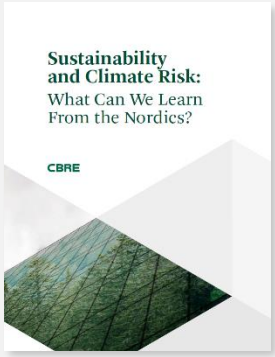

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CBRE's UK and Continental European research teams have explored a wide range of environmental and sustainability issues in detailed research reports, some of which are shown here.

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As part of the wider global network of CBRE research professionals, CBRE's UK Research team supports our consultancy work with sophisticated evidence-driven insight into key sustainability issues.

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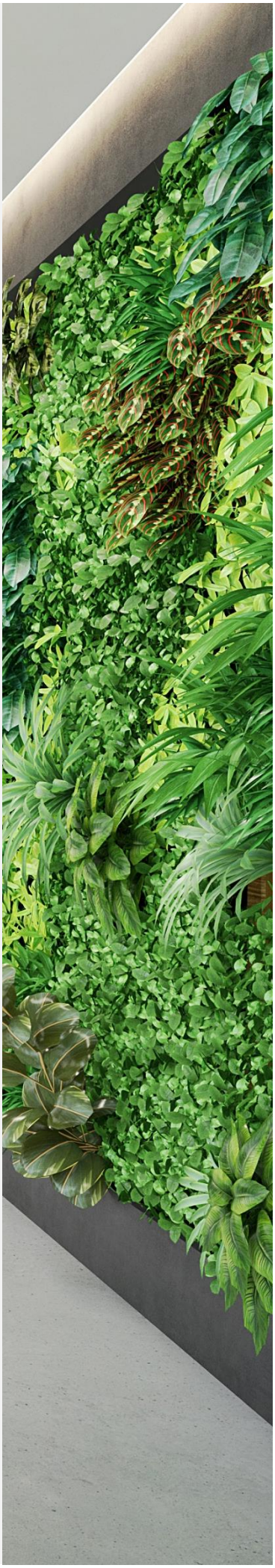

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