POSITION PAPER

August 2020

EU NON-FINANCIAL REPORTING DIRECTIVE

KEY HIGHLIGHTS AND RECOMMENDATIONS

The listed property sector acknowledges the need for improved transparency in sustainability of the companies. We are pleased to have the same objective with the European policy makers and provide a feedback on the Non-Financial Reporting Directive.

- We recommend to increase the scope gradually, not to capture SMEs but rather encourage them to do so voluntarily.
- We urge the Commission to focus on a good quality and sector-per-sector based NFR standard to equip smaller and medium sized companies with limited if any experience in ESG disclosure; and increase the comparability of the data disclosed.
- We endorse a greater NFRD's alignment with both the TCFD and EU Taxonomy. The concept of materiality is to be preserved.
- To increase reliability of the ESG data, we support the requirement of a limited assurance by all Member States.

Background

The provision, use and demand of non-financial information, in particular within the investment community, has been increasing significantly and rapidly over the past few years. The Non-Financial Reporting Directive, (Directive 2014/95/EU, the "NFRD"), contributed to this development when requiring companies under its scope to report for the first time in 2018 (for financial year 2017). Another significant development has been brought with the Final Recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). These are very important acknowledgments that greater efforts are required to tackle unchecked climate change and the need for improved transparency in sustainability of the investee companies, more urgently in the reporting of climate-related risk and its financial implication on the business and also impact of its activities.

European listed real estate companies, including Real Estate Investment Trusts (REITs), derive income from the ownership, trading and development of income producing real estate assets. We recognise that buildings are responsible for around 40% of energy consumption in Europe and there is a significant annual investment gap estimated at around €177 billion between 2021 and 2030, totalling €1.77 trillion out of which the biggest gap relates to investment in energy efficiency in buildings (74%). In this context, the Commission's commitment to promote greater transparency on ESG-related risks and performance is greatly welcomed by EPRA – European Public Real Estate Association, which with a membership comprising of 228 property companies and investors has long envisaged the same and supported public disclosure of environmental, social and governance (ESG) data as fundamental component of a sustainable approach to real estate. EPRA's commitment is communicated not only through its Sustainability Best Practice Recommendations (sBPR) or the most recent Guide on Enhancing Transparency with the TCFD, but also through engaging with policy makers to communicate the market experience and help them advance the existing legislative framework and increase transparency and comparability of the material ESG data. With that vision we hereby provide a feedback on the Non-Financial Reporting Directive.

> 'As long-term owners and managers of real assets with significant environmental impacts, property companies have an important role to play in the battle against climate change.'
>
> Louise Ellison, EPRA Sustainability Committee Chairwoman, Group Head of Sustainability at Hammerson

Scope: There is a need for more companies to disclose non-financial information

We are very pleased to see that the business and investment community in the listed real estate sector together with policy makers have the same objective. We both want to bring more companies on the same journey and help them provide ESG information while improving the quality of disclosure. We do it because there is no doubt about the value it brings for sustainable real estate business; and we care about that business.

There are, however, two distinct approaches to accomplish that goal. The first one is faster in a short-term but perhaps not as effective in the long-term. It would imply a legislative change and simply extend the scope of the NFRD imposing such requirement also to those companies which might not have any experience in public ESG disclosure. We at EPRA are concerned of this approach, if taken too far as we risk of pushing companies to disclose artificial, immaterial and irrelevant information purely because they have been required to disclose. There is nothing wrong with extending the legal requirement to capture more companies, however, we argue that this process should be gradual and go hand in hand with improvement of the quality of such disclosure. We would therefore like to propose the following second approach based on the experience of 70 listed property companies representing €251 billion in market capitalisation, 6,400 assets of 190 million of m2, of which the vast majority voluntarily and publicly disclose non-financial information. They do so because they are being equipped by the appropriate standard, i.e. Sustainability Best Practice Recommendations (sBPR), assisted by the EPRA Sustainability team and encouraged by the investment community. They do so not because they are mandatorily required, but because it is important to their business and that is exactly what the investment community needs. They need to be able to recognise which businesses are committed if given the right tools and which ones are not.

> 'EPRA sBPR performance measures are an important tool for the industry to assist in disclosing clear and comparable information for investors, increasing market transparency and ensuring better insight into emerging risks.'
> Justin Travlos, EPRA Sustainability Committee Member, Country Head, UK and Global Head of Sustainability at AXA IM – Real Assets

Our recommendation is to increase the scope gradually, not to capture SMEs, and focus on a good quality NFR standard to equip the companies with limited experience in non-financial information disclosure.

Scope: Alignment with TCFD & EU Taxonomy

At the moment, the alignment of NFRD and TCFD is supported by the latest Commission's Guidelines on non-financial reporting. Although done very well, we agree that greater encouragement may be needed. With that vision, EPRA launched its TCFD Guide which is addressed to the listed property companies reporting on the sBPR. Besides, we are eagerly anticipating the upcoming Technical Taxonomy, which is yet to be presented by the Commission in its delegated regulation. It is our understanding from the business and investment community in the listed real estate sector, that the EU Taxonomy is a very promising tool and a greater alignment between NFRD, TCFD and the EU Taxonomy should be encouraged. We would like to suggest that such encouragement should consider the slight differences in objectives between the three initiatives and preserve the concept of materiality.

Standard: Sectorial focus important in increasing the data comparability

Most of the EPRA members would not meet the minimum 500 employees' threshold for the NFRD rules to apply, yet they would disclose their non-financial information on a voluntary basis to demonstrate how they are managing ESG factors and remain competitive on the market. Equally, a correlation between the size of listed property companies and the quality of sustainability disclosures has been decreasing over the past years. It shows the high importance and relevance for smaller companies to have an access to specifically tailored industry standards. It is our strong view that a successful European non-financial standard needs to have an industry focus which could be done indirectly by referring to the existing standards which are recognised by the investment community, such as sBPR.

Verification: Important in increasing the data reliability

From our experience, majority of the companies have their data verified as they are then seen more reliable by an investment community. Reliability of the non-financial information is as important as the existence of such disclosure. It is therefore our view that a limited assurance should be uniformly required by all companies which are subject to the NFRD rules.
