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ESG REPORT

ESG frameworks report

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An introduction to ESG frameworks

Investor interest in sustainability is mounting, making it a hot topic in board rooms around the world. We know we need to pay attention to the emerging environmental, social, and governance (ESG) frameworks. But where do you start?

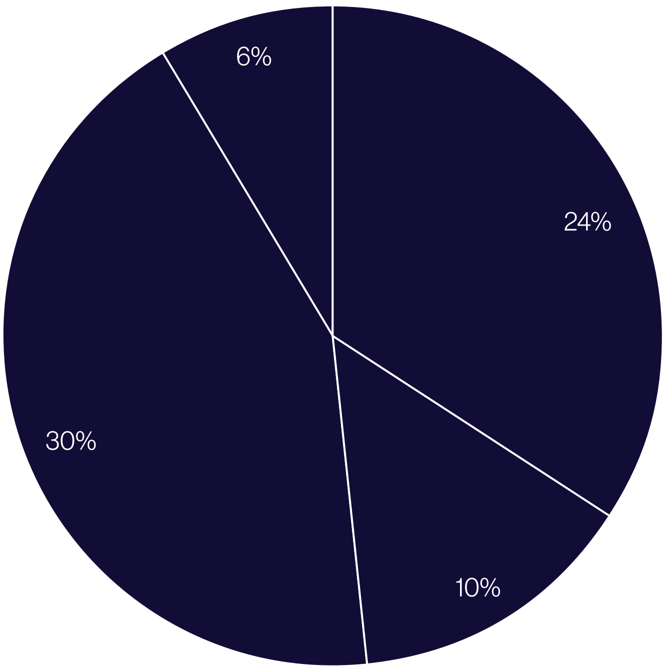
There is not currently a uniform standard, but there are numerous frameworks that any organisation can use as a guide for establishing their ESG reporting process. These are all different and, sometimes industry-specific too, adding to confusion.

Basic ESG reporting will soon be mandatory in the EU, with the UK taxonomy also in development. But, where it's not, keeping account of your metrics is important for long-term business health and for keeping your investors happy. According to a recent Edelman survey, 88% of institutional investors believe that companies that prioritise ESG initiatives are more likely to achieve long-term returns compared to companies that do not. Measuring and reporting ESG is also an internal opportunity to innovate, identify risks, and reduce costs A study by YouGov found that 60% of those aged 23-36 are more likely to buy from companies that are conscious and supportive of protecting the environment.

Which ESG frameworks and standards exist?

Since ESG reporting is very loosely regulated at this point, it's up to individual organisations to choose a framework or frameworks to follow and report to.

In the BREEAM annual ESG survey, the following frameworks were most commonly identified by ESG and sustainability leaders:



24%	GRESB
10%	Task Force on Climate-Related financial disclosures (TCFD)
30%	United Nations Sustainable Development Goals (SDGs)
6%	Sustainable Finance Disclosure Regulation (SFDR)

Let's delve into each to see how they help with ESG...

1.GRESB

GRESB is the Global ESG Benchmark for Real Estate Assets, measuring the ESG performance of real estate and infrastructure assets. GRESB helps investors and stakeholders assess the ESG performance of developers and REITs. GRESB Assessments are ESG questionnaires that property companies, developers, asset managers, and others complete on a yearly basis. The answers are self-reported, and then validated by GRESB. GRESB is good as it benchmarks assets against each other by providing a score. To receive a score, an organisation must self-report data in either the GRESB Real Estate Assessment or a GRESB Infrastructure Assessment.

The Assessment results in several key data points:

1. A GRESB Score, which is a percentage that measures an assets ESG performance in absolute terms.
2. A GRESB Rating, which ranks an entity compared to its competitors and peers. The rating is calculated relative to the global performance of all reporting entities: GRESB 5 Stars is the highest ranking, going to the top 20% of participants each year.
3. A summary analysis of performance, showing strengths and weaknesses in areas like leadership, policies, risk management, health and safety, greenhouse gas emissions, building certifications, and stakeholder engagement.

GRESBs unique selling point is that it is the only ESG framework designed specifically for real estate and infrastructure, hence why investors and ESG professionals identified it as the most commonly used (link to report instead)

2.The Task Force on Climate-Related Financial Disclosures (TCFD)

The TCFD is an initiative of The Financial Stability Board and was created to improve and increase reporting of climate-related financial risks. It is widely cited that this will be an interesting standard to track long term, to see which companies report climate-related financial information and also how they fare. The UK government is currently considering implementing the TCFD requirements in its own legislation. The TCFD recommendations for reporting can be found in their knowledge base, along with in-depth tutorials on how to adhere to their standards.

3. UN Sustainable Development Goals

The Sustainable Development Goals (SDGs) initiative identified the 17 most important areas to solve economic, social, and environmental challenges by 2030.The SDGs can be used to manage ESG reporting and create long-term financial value. As of February 2018, approximately 40% of the G250, the world's largest 250 companies, acknowledge the SDGs in their corporate reporting and include the global goals in their CEO and/or Chair's message. The SDGs create many opportunities for both investors and corporations.

The value of the SDGs rests in their ability to "offer an effective way to look at opportunities and risks, to translate the impact of ... investment activities into real economy outcomes and provide a useful means of engaging with stakeholders."

The SDGs provide a framework and common language for companies to integrate sustainability information into their reporting processes. There is currently no standardised corporate reporting system exists for the SDGs and their targets, however numerous organisations have proposed models which can be used to incorporate the SGDs into their reporting cycles.

BREEAM supports the SDGs and will continue to evolve the BREEAM family of standards and tools to enable significant contributions towards meeting the SDGs. BREEAM has produced an infographic that demonstrates how and where the BREEAM family of standards and tools support each of the 17 SDGs. In 2020 we expanded our work around the SDGs and reviewed the portfolio of BREEAM schemes and their applicability to the UN SDGs at an indicator level. The work allows users to explore the different SDG goals and quickly understand how and where BREEAM criteria supports the built environment in achieving these goals. This will enable those assessing their assets to the BREEAM schemes to easily map and demonstrate how their assets are being designed, constructed and operated in a way that supports the aims of the SDGs and ESG goals.

4. Sustainable Finance Disclosure Regulation

The European Commission ("Commission") launched its Sustainable Finance Action Plan in March 2018, including three legislative proposals aimed at: creating an EU sustainability taxonomy; requiring disclosures relating to ESG factors; and the creation of low carbon and positive carbon impact benchmarks. Unlike the other frameworks identified in the BREEAM survey, the SFDR is regulation under the EU Action Plan on Sustainable Finance. The EU SFDR requires firm-level disclosures from asset managers and investors on how they address two key considerations: Sustainability Risks and Principal Adverse Impacts.

5.International Sustainability Standards Board

The International Financial Reporting Standard (IRFS) has recently announced the creation of the International Sustainability Standards Board (ISBB). The creation of this board marks a significant development in ESG reporting, with KPMG stating that it is 'a major step towards convergence of the currently fragmented reporting landscape'. The standards will initially focus on climate related elements of ESG then broaden out and will focus on disclosures that are material to investors.

Is Harmonisation between Frameworks needed?

The existence of multiple ESG frameworks raises the question; is harmonisation required? Although the industry leaders largely agree that one definition would be a benefit, the answer is more complicated.

As the ESG agenda grows, fragmented standards will present more and more significant challenges. Challenges include:

1. Investors and asset managers being unable to compare investments on a "like for like" basis between different jurisdictions
2. Challenges associated with global financial institutions implementing effective group governance and risk management controls
3. A greater risk of jurisdictional arbitrage, with product providers potentially choosing jurisdictions perceived as having less rigorous standards, which may contribute to the risk of "greenwashing" (i.e. overstating ESG performance); and
4. Greater difficulty incentivising desired behaviour (e.g. through tax and other fiscal incentives) where there is insufficient clarity around the treatment of ESG products and investments.

This results in:

1. Multiple standards which often take different approaches
2. A lack of common definitions for sustainable activities
3. A lack of a coordinated approach to avoiding "greenwashing" and ensuring investor protection.

(Source: Herbert Smith Freehills)

There is a lot of talk around the harmonisation of ESG frameworks but few solutions.

Cathrine de Coninck-Lopez, global head of ESG, Invesco argues that the priority for ESG in 2022 should be transparency in ESG profiling and data comparability, both of which are critically needed. This is what is required in ESG if the market is going to prove a useful tool for changing our economic and environmental trajectory. Once these things have been achieved, then work can be done on harmonising frameworks.