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Basel Committee document d560 on the disclosure of climate-related financial risks

Response of the Commercial Real Estate Finance Council (CREFC) Europe

CREFC Europe is a trade association promoting a diversified, sustainable and successful commercial real estate (**CRE**) finance market in Europe that can support the real economy without threatening financial stability. Our membership includes a range of different bank and non-bank lenders, intermediaries and advisory businesses, and real estate firms that use debt to finance their activities.

For several years now climate-related risks that might previously have been regarded as externalities have become a mainstream focus for our membership and our industry, and we have participated in a wide range of related public sector-led and private sector forums and other discussions and initiatives.

These submissions are made from the perspective of our market and policy area of expertise, namely the UK and European CRE financing market and (for present purposes) the role that banks play in financing real estate. Some of our comments may have broader relevance.

Key messages

Given our industry focus and area of expertise, we have focused in particular on the proposed quantitative transition risk disclosures relating to the real estate exposures in the mortgage portfolio by energy efficiency level (Template CRFR3). We have also considered (from the real estate perspective) the proposed qualitative information requirements proposed in relation to governance, strategy and risk management (Table CRFRA) and transition risk, physical risk and concentration risk (Table CRFRB).

We have two high-level messages in response to this consultation, besides more detailed comments.

1. Disclosures should provide information that is meaningful and useful if they are to be justified in cost/benefit terms, but those proposed by d560 do not.

The disclosure framework proposed in d560 (in common with other existing disclosure regimes) invites preparers and users to focus on the wrong things. In particular:

- Perhaps the most meaningful question is the extent to which the sponsors of real estate assets to which banks lend have put in place, and are implementing, a net zero carbon plan (which should be linked to a framework like CRREM¹ and not merely a target). This is important because it goes straight to the protection of asset values, which in turn feed through to credit risk for lenders, most obviously when a loan matures.
- By contrast, the reporting of what d560 calls “energy *efficiency*” (in fact, a measure of energy *intensity*) in the way proposed would provide no insights at all into the nature, extent and management of climate-related financial risks in a bank’s commercial mortgage book.

¹ CRREM is the Carbon Risk Real Estate Monitor, with [European](#) and [global](#) tools to help real estate investors to measure the carbon risk of their assets and manage the timing and impact of retrofitting them.

2. Disclosures should incentivise behaviours that are appropriate at the market (as well as firm) level, but those proposed by d560 are likely to lead to undesirable market-level outcomes.

The disclosure framework proposed in d560 (in common with other existing disclosure regimes) focuses too much on direct climate-related exposures at the level of individual firms, and too little on the role of banks financing the economy as a whole and the climate transition in particular. In consequence, the proposed framework gives rise to indirect and longer-term fallacy of composition risks:

- arising from the slower, and thus more expensive and disruptive, decarbonisation of structurally high energy-consuming but socioeconomically necessary sectors and assets (if banks' collective response is to prefer not to finance their decarbonisation), and
- in terms of financial stability and broader economic disruption (if banks' collective response goes further and we see broad divestment from high energy consuming sectors, and withdrawn bank credit is difficult and expensive to replace).

Approach of this response

We have provided specific responses to certain questions, but we found the very large number of rather formulaic and sometimes overlapping questions contained in d560 difficult to manage efficiently from the perspective we can offer on this subject. Besides the two key messages above, our primary submissions are set out in the more detailed general comments section below. These are relevant to all the questions on which we have any opinion. We then set out more specific detailed responses to some of the questions posed by d560. While we have not elevated them to the status of "key messages", some of those comments also raise serious concerns about the proposed approach in d560.

More detailed general comments

A particular challenge that "climate-related risks" present for banks is that there are two quite distinct and misaligned angles from which such risks can be viewed:

- The first (narrower) angle is exposure to, and management of, climate-related risks at the level of the individual firm. This tends to be the primary focus of financial regulators, regulatory capital frameworks and disclosure regimes (and dominates d560). In a somewhat simplistic way, it effectively encourages banks to reduce their exposure to 'brown' assets and sectors, regardless of their socioeconomic function, inviting them instead to finance assets and sectors that are structurally (or just already) 'green'.²
- The second (broader) angle recognises that banks collectively have a key role to play in financing climate adaptation and mitigation, including in particular the decarbonisation of the economy (and specifically, for the purposes of this submission, the built environment and real estate). This is generally understood by many government policymakers, for whom the ability of the market to fund transition to a low carbon economy is important. Central banks and financial regulators sometimes appear to appreciate this³, but mostly overlook it, tending to take the narrower view.

² We use the terms 'brown' and 'green' as shorthand for concepts that are commonly used but vague and, in our view, mostly unhelpful (as whether any building is 'brown' or 'green' is simply a function of time and capital).

³ See [this 2021 speech](#) by Sarah Breeden, now Deputy Governor, Financial Stability, at the Bank of England, where she noted that: "while individual investors can divest, the financial system as a whole cannot. And with a fixed budget of emissions to reach net zero, if the real economy transition is simply delayed, the sharper and riskier it

A well-designed disclosure framework for climate-related financial risks should recognise the second, broader, angle described above, and help focus the attention of banks and other market participants on a category of risks that have historically been regarded mostly as externalities. If banks are required to measure and disclose the right climate-related data (both qualitative and quantitative), they will be more likely to understand and manage associated risks more effectively. Users of those disclosures can reinforce the importance of better understanding and management of such risks.

On the other hand, failing properly to recognise the second, broader angle described above results in a poorly designed disclosure framework, focusing attention on the wrong considerations, rendering the transition to a low carbon world more difficult and costly. Worse still, that could lead to a misallocation of capital in the underlying economy, away from assets and sectors that need finance to decarbonise, and towards assets and sectors that do not. That in turn distorts values, creating bubble risks in assets that are 'green' (today; they will inevitably be less 'green' in a few years' time), raising the cost of improving assets that are too 'brown' to be financed, and making refinancing harder for banks already exposed to such 'brown' assets. In an extreme case, many existing assets historically financed by banks may needlessly become effectively unfinanceable, giving rise to financial stability risks.

We consider that the proposals set out in d560 as they relate to commercial mortgage lending would neither generate meaningful information, nor incentivise the right behaviours. Furthermore, we perceive a serious fallacy of composition risk because the proposed disclosure framework encourages banks to:

- focus on simplistic firm-level risk metrics, instead of taking responsibility for focusing on customer journeys, i.e. helping their real estate customers to protect the value of their buildings by decarbonising them and otherwise addressing climate-related risks,
- divest from socioeconomically essential, but inherently energy intensive, assets and sectors, and
- refuse to finance the essential, but capital intensive, decarbonisation of the large majority of buildings that need to be adapted for a low carbon future.

Those behaviours – entirely rational as they would be at the level of an individual bank in response to the approach proposed by d560 – could create real problems if they were replicated across the banking sector. Banks may find it difficult to refinance their existing exposures to 'brown' buildings, giving rise to avoidable disruption across large swathes of the real estate market.

The real estate sector

Inherently high energy-consuming assets and sectors. Certain real estate asset classes (obvious examples are cold storage and data centres) are naturally and inevitably very energy intensive. They are also obviously necessary for modern economies and societies to function. These kinds of buildings therefore need to be made as energy efficient and low carbon as possible – and that requires capital. The disclosures required from banks could and should be formulated in such a way as to support that goal; but the proposals in d560 (in common with other existing disclosure regimes) seem to us to create the opposite incentive, encouraging banks to reduce their exposure to inherently energy intensive sectors rather than support their decarbonisation. It would neither reduce climate-related financial risks nor serve any other useful socioeconomic purpose simply to discourage institutional capital (including banks as lenders) from funding them.

will be. In this way, seemingly rational individual actions can make our collective future problems bigger. Instead, we need those with high emissions today to make the biggest effort to reduce emissions tomorrow. And we need the financial sector to steward them through that transition, as well as to help to build greater resilience to physical risks."

Social and multifamily rental housing It is worth noting one other specific aspect of what “CRE” covers. In the light of the simplistic categorisation in Template CRFR3 of mortgage lending as either “residential” or “commercial”, it is worth noting one specific aspect of what “CRE” includes: social and multifamily rental housing. This market is large and developed in some jurisdictions (including major European and North American markets), small but growing in others (such as the UK). The relevant real estate is “residential” in terms of its occupational use, but it is “commercial” in the sense that it entails the financing of real estate developers and institutional asset owners and managers, rather than retail mortgage finance for households.

Regardless of its scale and state of evolution, rental housing is an important element of the overall housing market in socioeconomic terms. Unlike the build-to-sell housing market, rental housing assets are not simply built and sold to owner-occupiers; they need to be capable of effective and efficient commercial management and operation over many decades. One aspect of that is that it is common to see a strong focus on energy efficiency and climate (resilience, adaptation and impact) in the construction, refurbishment and operation of rental housing. It can be seen that the economics of this kind of housing are better aligned with delivery of new homes at scale, and it offers fertile ground for innovative design and sustainable, long-term thinking. Based on the approach in d560, it would be invisible.

Retrofit refurbishment to protect value. More broadly, it should be remembered that all buildings deteriorate and depreciate as they age, and if they are to remain fit for purpose and retain value, they need from time to time to be refurbished and upgraded. Without periodic investment, most buildings will fail to attract occupiers, and may fail to comply with changing legal or regulatory requirements. Our towns and cities are full of older, less energy efficient buildings, most of which will be with us for decades to come.⁴ There are various options for dealing with buildings as they age: they can be demolished and replaced (at significant cost in terms of embodied carbon); refurbished (and retrofitted to be more energy efficient and resilient to climate-related risks); maintained with minimal investment (and no improvement in terms of energy efficiency, at a cost in terms of higher climate-related risks); or abandoned (if the owner concludes that neither continued operation nor further investment is economically justifiable – albeit such ‘stranding’ may be a very poor solution for those living or working nearby).⁵

If we are to achieve a sustainable, net zero carbon (or low carbon) built environment, the large majority of existing buildings will need to undergo energy efficiency-improving, emissions-reducing retrofit as part of their natural refurbishment cycle. Critically, refurbishment itself will generally increase emissions temporarily (even if operating carbon emissions are thereby reduced), but in most cases refurbishment is likely to be the best solution, and much more carbon-efficient than demolishing and building afresh.

Where a bank finances decarbonisation through retrofit, that is likely to give rise to a period of temporarily higher Scope 3 financed emissions as a result of the works; and the operating carbon performance of the refurbished building, while improved, may not match that of a brand new building. However, the whole life carbon (embodied plus operating carbon) cost is likely to be significantly lower in the retrofit/refurbishment scenario than in a demolish-and-rebuild scenario. Real estate developers and investors are increasingly thinking along these lines, with industry frameworks adopting a building lifecycle

⁴ According to [this report](#) from the World Economic Forum, around 80% of the buildings we have today will still exist in 2050 (when the government has committed to achieving net zero) are already standing. The UK Green Building Council makes a slightly different claim [here](#), namely that 80% of the buildings which will be occupied in 2050 already exist. Either way, the fundamental need to decarbonise existing buildings is clear.

⁵ These choices apply to all buildings sooner or later. Even the ‘greenest’ office building from 2014 will almost certainly fall far short of the ‘green’ credentials and energy efficiency performance that office buildings completed in 2024 can achieve. Similarly, buildings completed in 2024 will look shabby by 2050, unless refurbished in the late 2040s.

approach to carbon against the backdrop of an available ‘budget’ of carbon emissions that can be ‘spent’.⁶ It would be extremely useful for driving the decarbonisation of the built environment if banks were also to think of carbon emissions in terms of a budget and how that budget is ‘spent’ over time.

A well-constructed disclosure regime for banks would encourage them to facilitate ‘spending’ the carbon budget on the decarbonisation of buildings, thereby reducing climate-related financial risk not merely for the individual bank, but for all of us. That would complement the transition plans that banks are putting in place, where a major focus is on helping less climate/carbon-aware borrower clients become more informed and adopt and execute plans to improve their assets (and protect the value against which banks have already lent). We consider that the proposals in d560 require a significant rethink so that they might work in this way. As currently configured, d560 is more likely to encourage banks to abandon the customers who most need support to improve their buildings, withdrawing capital from the parts of the built environment that arguably most need it.

Interaction of disclosures with behaviour in the real estate sector

As explained above, a well-constructed disclosure regime should in our view encourage banks to support the orderly decarbonisation of existing buildings in accordance with carbon budgets, aligning with banks’ transition plans linked to customer journeys and the protection of asset values. Instead, the proposals in d560 are likely to discourage banks from financing decarbonisation as it would look ‘bad’: it entails temporarily higher emissions and may interrupt rental income from income-producing real estate, and may result in operating emissions that, while lower, are not as low as those of the best new buildings. These proposals may even encourage banks generally to seek to reduce their exposure to older, less energy efficient buildings in favour of exposures to buildings (and indeed asset classes and sectors beyond real estate) that are already efficient, or inherently have low energy usage.

It may make sense for an individual bank to target only the very newest, low carbon buildings, to avoid financing retrofit or even to avoid lending at all against buildings likely to require retrofit over a ten-year horizon. But a common disclosure framework would encourage the whole banking system to make those choices, leading to a significant withdrawal of the lowest cost capital invested in the real estate sector. The effect of that on asset values could be materially negative, with corresponding implications for existing bank exposures to real estate. The viability of climate risk-conscious and energy efficiency-enhancing refurbishments, and the pace and cost of the decarbonisation of the built environment would surely suffer.

We note that Table CRFRB includes an expectation (under 1. Transition risk, para (a)) for banks “to provide qualitative information that reflects the extent to which their financing is supporting their counterparts [*sic*]⁷ in climate change mitigation and adaptation”. This point appears to recognise the broader, market role banks can play in tackling climate change. However, the quantitative reporting contemplated by Template CRFR3 by reference to “energy efficiency”⁸ seems likely to encourage banks to minimise the degree to which they have high kWh/m² to report, and to maximise the degree to which they have low kWh/m² to report. That, in turn, would not seem to be compatible with a role financing low carbon

⁶ See for example the Whole Life Carbon Vision from the World Green Building Council (<https://worldgbc.org/advancing-net-zero/whole-life-carbon-vision/>), the Whole Life Carbon Roadmap from the UK Green Building Council (<https://ukgbc.org/our-work/topics/whole-life-carbon-roadmap/>), or the Whole Life Carbon Assessment from the RICS (<https://www.rics.org/profession-standards/rics-standards-and-guidance/sector-standards/construction-standards/whole-life-carbon-assessment>). See also the work of CRREM, referenced in footnote 1 above.

⁷ We assume that the reference here to “counterparts” is intended to be to “counterparties” (in other words, in the real estate lending context, borrowers) rather than other banks/lenders.

⁸ As mentioned above, kWh/m² is a measure of energy consumption per unit of area, or energy *intensity*, and says nothing about the energy *efficiency* of a building’s structure, specifications, operation or use.

transition, or even simply continuing to lend against buildings whose owners understand the need, and have a plan, to invest in improving their energy performance and resilience to transition risk.

Responses to specific questions

General

Q1: See general comments above.

Q2: See general comments above.

Q3: See general comments above.

Q4 (Would the Pillar 3 framework for climate-related financial risks be sufficiently interoperable with the requirements of other standard-setting bodies? If not, how could this best be achieved?): The real estate industry has been developing various frameworks and tools for guiding the transition to net zero of individual assets. We doubt many of the organisations involved will be reviewing and responding to d560. As currently configured, we do not consider that the disclosures proposed by d560 are meaningfully interoperable with the approaches and metrics emerging from the real estate industry.

Q5: See general comments above.

Q10 (Would the qualitative and quantitative requirements under consideration need to be assured in order to be meaningful? If so, what challenges are foreseen?): As mentioned in our response to Q25, we consider that we are a long way from adequate energy usage, intensity and efficiency data availability and sharing in the real estate market. As such, discussion of assurance feels premature.

Qualitative disclosure requirements

Q11: See general comments above.

Q13: See general comments above.

Q15: See general comments above.

Q16: See general comments above.

Quantitative disclosure requirements – general

Q17: See general comments above.

Q19: See general comments above.

Q21: See general comments above.

Q22: See general comments above.

Quantitative disclosure requirements – transition risk: exposures and financed emissions by sector

Q24 (Would exposures and financed emissions by sector be a useful metric for assessing banks' exposure to transition risk?): In theory, it might seem obvious that this would be useful. However, our concern is that (in large measure for the reasons explained in our response to Q42 below) such sector disclosures might have the effect of driving banks' capital allocations away from sectors with a high capital requirement to address transition risks.

Furthermore, as discussed in our response to Q42, regulations relating to minimum energy efficiency/performance standards (MEES or MEPS) aim to drive investment in buildings to reduce their climate impact and make them fit for a low carbon future. Would this proposal regard such regulations as transition risk affecting the property sector? If so, a natural consequence may be that banks allocate capital to other sectors not affected by such transition risk. That would reduce the capital (and/or increase the cost of capital) available to improve buildings, undermining the effectiveness of those regulations and increasing climate-related financial risks at the market level, including for banks already exposed to affected buildings. We would therefore approach this proposal with caution.

Q25 (What are your views on the availability and quality of data required for these metrics, including by sector, activity, region or obligor?): Data availability and data sharing with lenders presents significant challenges in the real estate sector. Problems arise in relation to households/individuals, because their data, including in relation to energy, may be protected by privacy laws (such as the EU's GDPR). There are also considerable challenges in relation to rented commercial property, where building-level emissions data would require building occupiers and building managers and owners to share energy sourcing and consumption data. In practice, we suspect that data would in most cases be estimated.

Q26 (What key challenges would exist for preparers to disclose these metrics, including by sector, activity, region or obligor? How could these be overcome?): The main challenge we see from the real estate perspective is data availability (as discussed in our response to Q25). Additionally, while we are sympathetic to the tentative way in which specific metrics are proposed in d560, we are concerned that a disclosure regime framed in this way (where specifics are proposed on a "such as", "including" and "for example" basis) will create grey areas and uncertainty. As observed in relation to the European Union's SFDR, the result may be different interpretations and a lack of comparability across different firms' disclosures.

Q27 (What additional transitional risk disclosure requirements should the Committee consider?): As mentioned elsewhere in these submissions, there may be value in encouraging banks to ask their CRE borrowers about net zero transition plans (whether a credible one is in development, or in place, or being implemented, and how progress can be monitored). This is important, because borrowers with such plans are much more likely to be able to protect the value of their assets (the bank's collateral) than borrowers without such plans. We understand that some banks are already doing this, as their own transition plans focus on guiding existing customers to make the journey from more passive approaches to climate change and decarbonisation to active plans that can protect value and reduce climate-related risks.

Disclosure requirements should in turn support and encourage banks taking that approach, by requiring them to disclose the proportion (by number and/or value) of their CRE collateral in relation to which a net zero transition plan has been implemented, is in the course of being implemented, is in place but not yet implemented, is being developed, or is not yet even under development.

We are not sure whether what we have outlined would qualify as "transition risk disclosure", but we believe such an approach would contribute to driving appropriate behaviours for managing climate-related financial risks among banks and their borrower customers. As noted in our general comments above, that ought to be a primary objective of this disclosure framework.

Quantitative disclosure requirements – concentration risk

Q42 (What are your views on the usefulness [of] banks' disclosure of quantitative information on their risk concentration, ie of the bank's material exposures to sectors or industries subject to transition risk or to sectors/geolocations subject to physical risk relative to its total exposure?): Discussing concentration risk in relation to physical climate risks makes sense, as flood or wildfire risks are not evenly distributed geographically. However, we are not sure how (or why) transition risk should be assessed from a risk concentration perspective. In the context of real estate, a major transition risk arises from government regulations relating to minimum energy efficiency/performance standards (MEES or MEPS).

Such regulations, which may require buildings to meet a specified rating or standard in order to be lawfully lettable, have been a very powerful tool for focusing the attention of investors and lenders on energy efficiency/performance and driving investment to improve it. Jurisdictions using such regulations have seen the emergence of ‘green premium’ and/or ‘brown discount’ in property values, reflecting the perceived rental performance and value of buildings by reference to their energy performance. Does the Basel Committee think that the market should perceive the presence of such regulations in a jurisdiction as concentrated transition risk? There is a risk of perverse outcomes here.

Q43 (What are your views on complementing quantitative disclosure of risk concentrations with qualitative disclosure of contextual and forward-looking information on the bank’s strategies and risk management framework, including risk mitigation, to manage climate-related concentration risk?): This question hints at the possibility that a bank might legitimately pursue a strategy of targeting customers in the CRE industry who own ‘brown’ buildings with a view to supporting the improvement of those buildings through some combination of advice and finance. We would welcome encouragement of banks pursuing such strategies. However, the quantitative disclosures likely to be produced by such a strategy would be unlikely to flatter the bank, for the reasons explained above (see the section headed **Interaction of disclosures with behaviour in the real estate sector** on page 5).

If such unflattering quantitative disclosures could be complemented by an explanation that behind them lies a strategy designed to drive the decarbonisation of ‘brown’ buildings, that might help investors, counterparties and supervisors understand that such a bank is managing climate-related risks appropriately, while actively helping to reduce them at the market level.

However, to interpret the question in this way implies that exposure to ‘brown’ buildings of itself presents concentration risk, and that, in turn, implies that banks should in principle be reducing their exposure to ‘brown’ buildings. Bearing in mind that most buildings are ‘brown’ for most of their useful life, this suggests that CRE financing activity is problematic from a climate-related financial risk perspective. As noted in our general comments, this is fallacy of composition territory. Buildings deteriorate and depreciate over time regardless of climate change, but may require more targeted, or additional, capital expenditure in order to decarbonise and gain resilience in the face of climate risks. If banks are unwilling to fund such buildings, risk to their value will be increased, in turn presenting a threat to CRE exposures already on bank balance sheets (as well as to the pace and cost of the decarbonisation of the built environment).

Q43: (What challenges would exist for preparers or users of disclosures in relation to quantitative and qualitative information on climate-related risk concentrations? How could these be overcome?): See response to Q42 and Q47, and general comments above.

Quantitative disclosure requirements – templates

Q47 (What are your views on the structure and design of the proposed templates in relation to helping market participants understand the climate-related financial risks to which banks are exposed?): We comment only on Template CRFR3 – real estate exposures in the mortgage portfolio by energy efficiency level. As we have explained the reasoning behind our concerns above, this is a brief summary of the main problems we have identified.

- The proposed metric of kWh/m² does not measure “energy efficiency” as claimed, but rather energy usage per unit of area (or energy intensity). The transition to a low carbon built environment requires a number of things (including a move from fossil to non-fossil fuels in the energy mix, resulting in reduced GHG emissions, and optimising the carbon and energy efficiency with which buildings are constructed, refurbished and operated). Bucketing buildings by kWh/m² is almost entirely irrelevant.
- The proposed bundling of all commercial property (including rental housing stock, as explained above) together means that the highly differentiated energy requirements of different types of building will play a bigger role in the data reported than the efficiency with which individual buildings are operated

or the degree to which buildings are conforming to transition pathways consistent with available carbon budgets. For example, the most energy efficient data centre or cold storage facility (with inevitably high energy needs for cooling/refrigeration) will look terrible compared to almost any other kind of commercial building. Decarbonisation frameworks developed and used by the industry (including by CRREM – see footnote 1) recognise the variation across buildings by type, use, age, location, etc. and allocate carbon budgets accordingly. This disclosure framework should do so as well.

- The proposed “energy efficiency” (more accurately, energy *intensity*) bands are such that very few buildings will fall into the 0 to 100 kWh/m² bucket; almost all office buildings (regardless of their structural, occupational and operational characteristics) will fall into the 100 to 200 kWh/m² bucket, and most buildings falling into other buckets are likely to do so because they are used for purposes that have an inherently high energy consumption per unit of area.
- Imagine two data centres that have a similar energy requirement per unit of area, but whereas data centre A simply draws power from the grid⁹ to operate, data centre B generates a significant part of its energy requirement from onsite renewables and directs excess heat that it generates into a local district heating system. Is the intention that the template should bucket them in the same way, with no mechanism for recognising either the lower GHG emissions (onsite renewables generation) or the higher efficiency (use of excess heat to meet energy needs elsewhere) of data centre B? Or would data centre B report only net energy usage after deducting energy exports? Which of those results is more useful for the purposes of understanding climate-related financial risks, and why? If the Committee is not clear about the answers to such questions, is it really ready to make proposals for the disclosure of climate-related financial risks?
- Even aside from the fundamental problems noted above in connection with the specific data proposed for this template, it is likely that the data available to banks in relation to the energy usage, intensity and efficiency of the buildings against which they lend will overwhelmingly have to be estimated, because the collection and sharing of such data remains the exception rather than the rule for rented commercial property. When is it envisaged that even estimating the “energy efficiency level” is so difficult that bank are allowed (or required?) to use the “without energy efficiency measurement” column? It is doubtful how useful the kind of data exercise required by this template would be, until the challenges around underlying data are addressed.
- At a more macro level, the template is incapable of indicating what kind of contribution the bank is making to decarbonisation of the built environment through its mortgage lending. This matters, because of the importance of that decarbonisation process not only to climate policy but also to socioeconomic, political and financial stability. Indeed, the template as proposed is likely to exacerbate the decarbonisation challenge by encouraging banks to reduce their exposure to assets and sectors that have inherently higher energy requirements per unit of area (as explained, this is a measure of energy *intensity*, and nothing to do with energy *efficiency*), while providing very little incentive to improve the energy performance and reduce the GHG emissions of assets that are already in the best achievable “energy efficiency” bucket. As mentioned above, it would be far better for disclosures to align with bank transition plans that focus on customer journeys towards better understanding and the development and implementation of energy efficiency-enhancing business plans.¹⁰

⁹ We could add a further twist to this example by considering whether the grid is largely decarbonised or dependent on fossil fuels.

¹⁰ The final report of the [EEFIG Energy Efficiency First Working Group](#) includes, at Appendix B, recommendations from the real estate finance sub-group, setting out multiple practical ways in which lenders can help identify and exploit opportunities to improve the energy efficiency of buildings. Against that backdrop, the limited and underdeveloped proposals set out in d560 are especially disappointing.

- As mentioned elsewhere in these submissions, it would be much more interesting and useful for quantitative disclosures relating to the mortgage book to capture (a) whether the owners of the buildings against which the bank has lent have a credible¹¹ net zero carbon plan (and their record in implementing it); and (b) the degree to which energy efficiency (or other climate risk-mitigating) measures are implemented during the period of the bank’s exposure to a building.

Q48 (Would the potential structure and design of the templates pose any challenges for preparers or users of Pillar 3 climate-related financial risk disclosure requirements? How could those be overcome?):

See response to Q47 and general comments above. In addition, as noted in our response to Q26, while we are sympathetic to the tentative way in which specific metrics are proposed in d560, we are concerned that a disclosure regime framed in this way (where specifics are proposed on a “such as”, “including” and “for example” basis) will create grey areas and uncertainty. As observed in relation to the European Union’s SFDR, the result may be different interpretations and a lack of comparability across different firms’ disclosures.

Quantitative disclosure requirements subject to jurisdictional discretion

Q49 (What are the benefits of the proposed quantitative Pillar 3 climate-related financial risk disclosure requirements subject to jurisdictional discretion?):

Energy usage per unit of floor area in buildings (the suggested quantitative metric for residential and commercial real estate exposures) depends on a range of factors, including:

- The quality of the building’s structure and equipment (including in particular the materials used, insulation, and heating, ventilation and air conditioning systems)
- the use of the building (use as an office requires less energy than use as a data centre)
- the intensity of that use (a building will require more energy if it is used 24 hours a day, seven days a week, than if it is used 10 hours a day, five days a week)
- its location, because different climate conditions (much like different uses) will impose different energy requirements, most obviously for heating and cooling.

If only because of that last factor, it is likely that some level of jurisdictional discretion would be appropriate in determining the appropriate quantitative disclosure requirements.

If you have any queries in relation to this submission, please contact Peter Cosmetatos, chief executive of CREFC Europe, on 020 3651 5696 or pcosmetatos@crefceurope.org in the first instance. We would be very happy to work with officials on possible improvements to the proposed framework from the perspective of banks’ CRE exposures.

¹¹ E.g. one linked to a framework such as the CRREM tool referenced in footnote 1 above.