Green Street
Commercial Mortgage Alert
THE WEEKLY UPDATE ON REAL ESTATE FINANCE & SECURITIZATION

CREFC Advances Climate Agenda

A plan by the **CRE Finance Council** to add climate-related disclosures to its investor reporting package is coming into focus.

While adoption of the amendments is still months away, the trade group's IRP committee is focusing on four key issues CMBS issuers would have to address in reporting information about collateral properties to bondholders, according to **Sairah Burki,** managing director of regulatory affairs and sustainability at CREFC. They are: water efficiency, energy efficiency, greenhouse-gas emissions and property resiliency — that is, a building's vulnerability to storms, tornadoes, wildfires and other natural disasters.

The disclosures would take the form of new data fields to be added to the investor reporting package, which for more than 20 years has been the industry standard for how servicers prepare monthly reports for bondholders. Changes to the reporting protocols require approval of the committee, which counts more than 100 members and is overseen by CREFC managing director **Kathleen Olin.**

The IRP update parallels a separate effort by the **SEC** to adopt climate-disclosure rules. A rule proposal the commission released on March 21 is focused on public companies, but industry pros expect it eventually will be used as a blueprint for structured products. The SEC opened a 60-day comment period, though industry groups are expected to request more time.

In its response, CREFC plans to detail its own climate-disclosure initiative, which has been in the works for about a year. It also will make the case that the industry is in the best position to decide what data points would be most relevant to investors.

Michael Ruder, a CMBS attorney at **Cadwalader Wickersham** who advises CREFC on sustainability issues, noted that when the SEC last updated Regulation AB, which governs investor disclosures for a range of structured products, it deferred to the investor reporting package for CMBS and commercial real estate CLOs.

"If the industry can come together and present the SEC with what sort of climate disclosures should be required for CMBS, it could be a win-win," he said. "We can get the investors what they want and what borrowers are able to provide. That would be the ideal outcome."

Ruder and **Jason Rozes,** a **Dechert** attorney who also advises the trade group on sustainability initiatives, said one section of the SEC rule proposal known as Scope 3 represents potentially the biggest challenge for the commercial real estate sector. That's because Scope 3 requires disclosure of "downstream or upstream" impacts that might include greenhouse-gas emissions produced by tenants.

"Determining upstream and downstream usage is difficult," Rozes said. "There is a lack of data available." But, he added, "There is a safe harbor, so there is no liability if you provide the information in good faith on a reasonable basis."

Burki said it's possible CREFC will adopt its climate-disclosure standards before full data is available to populate all of the new fields. Disclosures about property resiliency, for example, likely won't be possible until completion of a study by **ASTM International,** formerly known as the American Society for Testing and Materials.

"Some of the fields are more aspirational," she said. "Market participants might not have the data right now, but it's something that in the future it would be good to report." ❖