

KAMMA

Month in Green

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Climate-related financial
disclosures special edition



kammadata.com

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Introduction

Disclosing climate-related financial risk is the accounting challenge of the decade.

Following the publication of its landmark Net Zero Strategy in 2021, the UK became the first G20 member to adopt mandatory climate-related financial disclosure requirements. Large listed companies now have to disclose how they identify, assess and manage climate-related risks and opportunities, as well as how these are integrated into risk management processes. Such requirements are the governments' seminal commitment to making the UK's economy the greenest in the world.

By 2025, the markets mandating disclosures will represent 56% of global GDP. They are already impacting eligible mortgage lenders, real estate funds, asset managers, and other businesses with property-related assets.

Reporting needs to align with the Task Force for Climate-related Financial Disclosures (TCFD) recommendations. These are beginning to standardise the process, helping organisations understand how and what to measure and disclose.

'A more consistent global approach to addressing climate-related risks will help both to better assess and mitigate financial vulnerabilities and to reduce the risk of harmful market fragmentation'

Financial Sustainability Board

Companies that lag behind in terms of reporting and addressing these risks will be exposed financially, legally and reputationally. Yet the property sector is still one of the slowest sectors to decarbonise, contributing to 22% of the UK's greenhouse gas (GHG) emissions. For businesses and institutions that own, finance or invest in property, measuring, disclosing and then reducing these emissions is key to avoiding negative attention from investors, regulators and customers.

Big increase in coverage, but the majority of disclosures are still rated as poor quality

Sector	Coverage* 2021	Coverage* 2022	Quality** 2021	Quality** 2022
Banks	77%	77%	46%	39%**
Financial asset owners and managers	48%	72%**	25%	35%**
Real estate	67%	83%**	36%	40%**

Source: EY Risk Barometer Survey 2022. * Coverage of TCFD recommendations in disclosures. ** Fulfilment of TCFD requirements

The quality of disclosures relies on the data used.

Disclosures with poor data leads to miscalculated emissions, mispriced assets, and misjudged climate risk. Preparations must begin immediately to ensure that the appropriate processes and governance structures are in place. These will also prepare organisations for more stringent reporting requirement, such as when the International Sustainability Standards Board's (ISSB) forthcoming global baseline standards are adopted internationally.

Yet property data is in the dark ages.

It's a major challenge for the property sector just to collect data linked to property emissions. From there it needs to be integrated with portfolios, modelled to close gaps and calibrated for accuracy. Delivering the financed emissions of property portfolios in an operationally efficient way is therefore a huge challenge. Even large data teams at major institutions struggle to deliver the high data quality scores that regulators expect.

Climate risk is financial risk

79% of investors agree that a company’s approach to ESG risks and opportunities is an important factor in investment decision-making.¹

While necessary, the disruption caused by the transition to a low-carbon future also poses an existential threat to the financial system. In the same way that the 2008 financial crisis exposed the importance of stress tests and regulation in capital markets, the climate crisis is pushing governments, aiming for Net Zero, to take another look at the data they require to be disclosed.

Physical and transition risks are projected to have material impacts on the financial value of companies and their property assets, giving policymakers, regulators, and investors reason to push demands on disclosures. Accurately measuring back book emissions, for example, grants investors insight on the route required to decarbonising a property portfolio, as well as how much it will cost. This helps differentiate a risky investment from a safe one.

This is all happening in a rapidly evolving regulatory landscape. Tightening environmental standards planned in the next few years have the potential to rebalance and revalue properties. For example, buy-to-let (BTL) lenders and investors are expected to fund an increase in the Minimum Energy Efficiency Standard (MEES) of rental properties from a grade E (2.4% of current rentals fall beneath this standard) to a grade C (62.9%

of current rentals fall beneath this standard).

This dramatic transition will require £29 billion in investment, or an average of £9,872 per home; a substantial risk for both lender and borrower. Should half of UK landlords be unable to make the investment, almost £400bn in assets will no longer be able to secure the income streams that make mortgage payments, and the asset valuation, viable.

Similar difficulties are experienced in the social sector, where landlords will be required to ensure a significant proportion of residential properties are EER C by 2035. A national target has also been set to get as many fuel poor households to grade C by 2030. In the context of rising fuel prices and a cost of living crisis, many landlords won’t be able to afford these expenses alongside mortgage repayments.

Investors are looking for companies to demonstrate how they will remain productive, competitive and profitable throughout the transition to a low-carbon economy. They gain confidence when companies are transparent about their risk management processes and findings. Data provides this clarity by making assumptions traceable and providing validation for any risks and opportunities identified.

Future impairment rates are much higher for properties with the lowest potential EPC ratings

Potential EPC rating	Current EPC rating		
	A-C	D and E	F and G
A-C	1.4%	1.4%	1.9%
D and E		1.1%	1.6%
F and G			35.8%

Source: Bank of England’s 2021 Climate Biennial Exploratory Scenario

The Bank of England’s first Climate Biennial Exploratory Scenario (CBES) released in May 2022 projected that failure to adequately respond to climate-related risks can create an annual drag on profits of up to 15% for major banks and insurers.



¹ Source: PwC

An evolving regulatory landscape

To date, the TCFD framework is the most popular reporting standard used to create policy mandates on disclosures.

It is also a useful starting point for companies deciding to build climate governance procedures, create climate-related targets and goals, and measure emissions and other relevant metrics. However, it does not determine who is required to disclose, and to what extent. This is decided by the regulatory bodies operating in the UK, and can vary by company size, back book, industry or revenue.

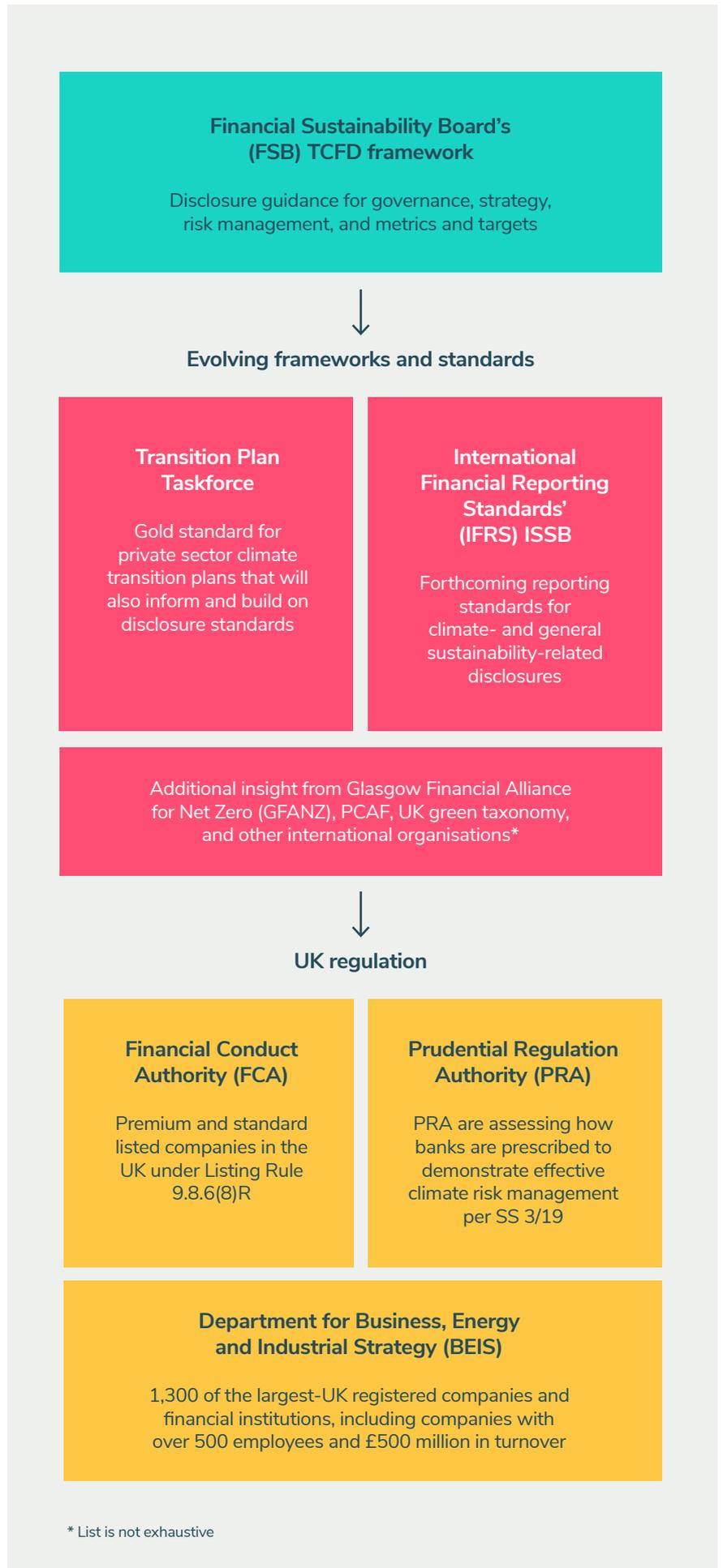
A network of existing and emerging bodies are working to create standards and frameworks for premium quality disclosures, but four main issues remain:

.....
Lack of standardisation

.....
Differing industry requirements

.....
Shifting stakeholder demands

.....
No consensus on data requirements



A focus on financed emissions

The UK guidelines specify that companies need to disclose Scope 1 and 2 emissions with Scope 3 remaining optional in the first year.

Time will move quickly, though, so companies will have to evolve their internal emissions accounting practices to prepare. Data collection for Scope 3 is often more complicated because it can require sourcing data directly from customers and suppliers instead of internally.

Banks and other financial institutions generally produce low Scope 1 and Scope 2 emissions, but their Scope 3 exposure is very high due to 'financed emissions'.

Financed emissions are generated as a result of financial services, investments and lending by investors and organisations that provide financial services. Overlooking

financed emissions mischaracterises back book reporting, accelerates climate change, and exposes financiers to reputational and financial risks.

Initially launched in 2015, the Partnership for Carbon Accounting Financials (PCAF), which aligns with TCFD, is designed to enable financial institutions to consistently measure and disclose the GHG emissions financed by their investments and lending activities, including real estate, mortgages and project finance. A PCAF quality score is calculated to represent the accuracy of the portfolio emissions, which is submitted as part of the disclosure. Submitting an objectively higher PCAF score offers more confidence to both regulators and investors.

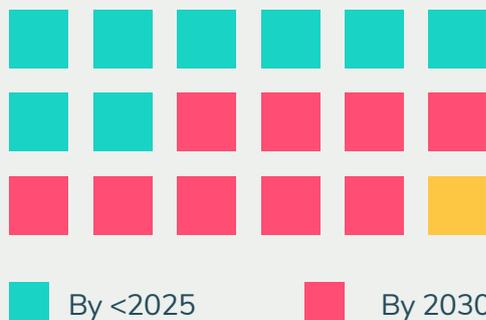
'Portfolio emissions of global financial institutions on average are over 700x larger than direct emissions, per organization reporting financed emissions'



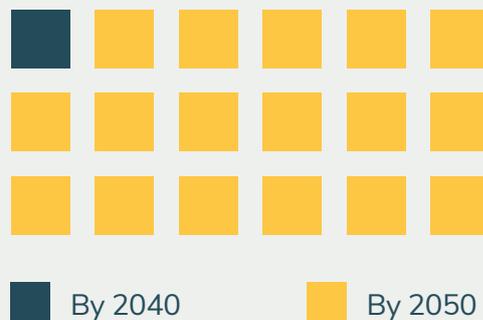
Disclosure Insight Action

Most firms have pushed Net Zero financed emissions targets far into the future, leaving room for complacency

Net Zero in own operations



Net Zero financed emissions



Each cell represents a single participating firm in the 2021 CBES

Property data problems

With such varying needs, approaches, and outputs, disclosures need reliable data.

While the Environmental Performance Certificate (EPC) register is a useful open source database that includes data for around 15 million properties in the UK, it is also missing an equivalent amount and operates under an outdated methodology.

For businesses and institutions that own, finance and invest in property portfolios, using EPC data alone to disclose on financed emissions not only leads to misrepresentative reporting, but also mischaracterises the risk exposure of the back book.

Inaccurate location data

Challenge

The lack of standardisation in how constituent parts of an address are recorded can lead to around 20% of properties not being accurately identified; a considerable blind spot. This challenge is compounded by poor EPC coverage, whereby 47% of UK properties do not have an active certificate. Together these challenges leave substantial gaps in portfolio assessment.

Impact

Inability to geolocate properties means that a greater proportion of emissions in the portfolio are derived through modelling, leaving a greater margin for inaccuracy.

Out-of-date methodology and carbon intensity factors

Challenge

EPC assessments, and much of the publicly available property data based on them, operate using a methodology finalised a decade ago. Everything from the carbon intensity of electricity to the expected fuel saving from solar panels is based on 2012 data, accounting for none of the changes in the market, or the recent spike in the cost of energy. It also means that emissions from electricity are usually overstated by a threefold average.

Impact

The grid has decarbonised significantly over the last ten years. Not accounting the impact this has on carbon intensity factors leads to financed emissions and risk disclosures that are significantly overstated, delivering worse PCAF scores.

The problems with EPC CO₂

Matching EPC to back book

60%

of companies report incomplete address data



EPC coverage

53%

of domestic properties currently have a valid EPC certificate



EPC carbon intensity factors

519 g CO₂/kWh

applied to all properties and tariffs



Current carbon intensity factors

173 g CO₂/kWh

average for GB over the last 12 months



Disclosure ready data

Kamma is building the single source of truth for environmental data relating to UK property.

We've mined and modelled hundreds of information sources to create an environmental profile for all 36 million properties in the UK.

Our method calculates financed emissions metrics in line with the 2020 PCAF Global Greenhouse Gas Reporting and accounting standard with greater coverage and accuracy than elsewhere. Using Kamma's data and analysis ensures you can achieve the best possible data quality score and reflect the truest view of your company's carbon footprint.

Kamma's solution

Accurate location data

- Analysis at the property-level
- Address-matching rates of 95%

- Covers of most data gaps in the EPC register
- Models on fewer outstanding properties
- Delivers a complete view of environmental profile

Up-to-date methodology and carbon intensity factors

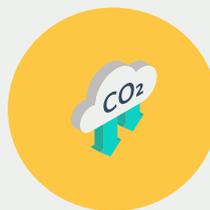
- Recalculates property EPC emissions based on the latest carbon intensity factor data
- Uses real-time regional data straight from the National Grid
- Adjusts for regional differences
- Incorporate heat pumps, and their carbon intensity factors, into assessments as the solution becomes increasingly common over the coming years

Use cases



Transition and physical risk analysis

- Assess energy efficiency and MEES compliance of a mortgage book or portfolio
- Integrate CBES and NGFS scenarios into analysis
- Assess flood, subsidence, and coastal erosion risk
- Demonstrate effective management of transition risk to PRA in line with SS 3/19



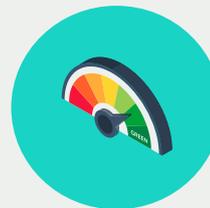
Road to Net Zero

- Report on the carbon emissions of a property portfolio, including Scope 1, 2 and 3 emissions, and embodied carbon
- Segment the major sources and opportunities to improve emissions
- Articulate a data-driven road to Net Zero



Reporting

- Report on financed emissions metrics in line with 2020 PCAF Global Greenhouse Gas Reporting standards
- Improve PCAF scores with a truer representation of the portfolios' carbon footprint
- Comply with ISSB, FCA, and PRA requirements with accurate data as the foundation of the optimum transition to Net Zero



Benchmarking

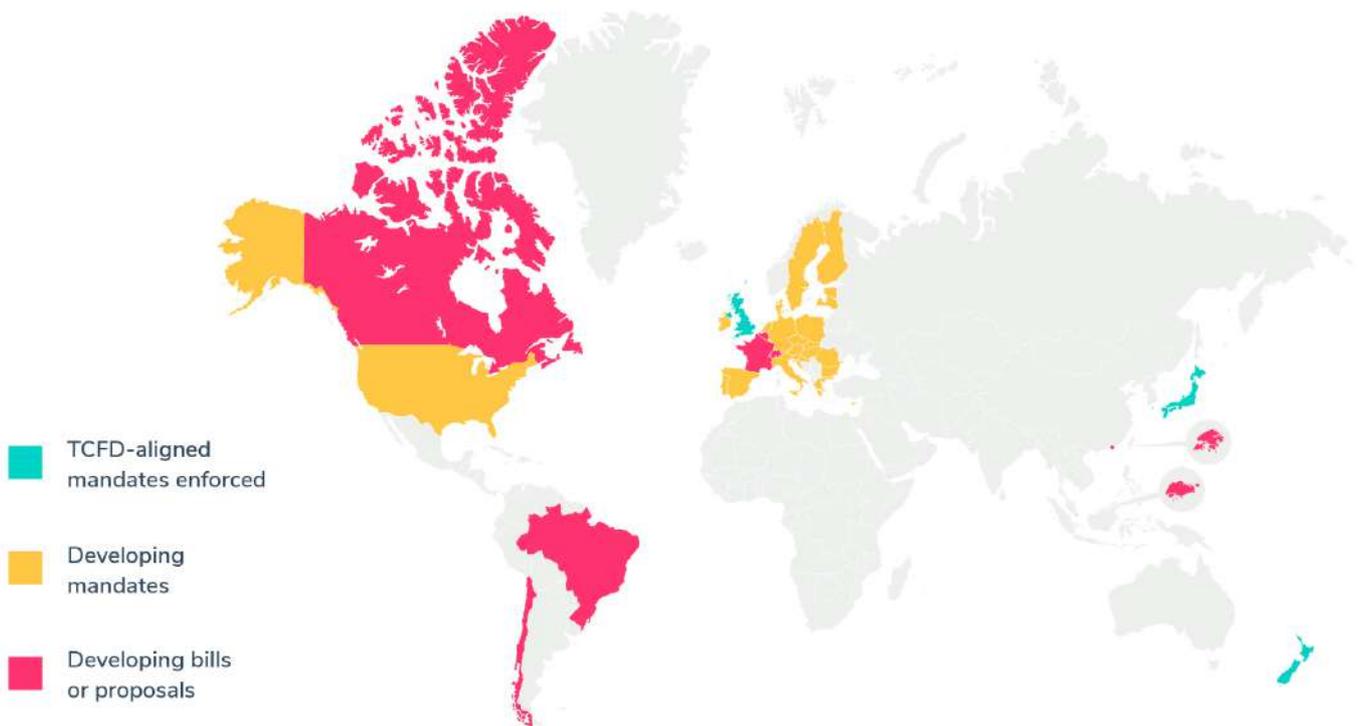
- Score green assets to qualify more loans for green securitisation and ESG investment
- Benchmark emissions footprint against industry, market and segment data
- Benchmark progress over time

Want to know more about climate-related financial disclosures?

Read our [ultimate guide for property-related assets](#)

The guide provides a broader view on climate-related financial disclosures, including what they are, where they came from, who is impacted, and where they apply.

It goes into more depth on key standard-setting frameworks, such as TCFD, ISSB and PCAF, as well as the current state of regulation in the UK and how it will quickly evolve over the coming years.



If you want to know more about climate-related financial disclosures, or how Kamma overcomes challenges associated with property data, [get in touch](#) now and sign up to our [mailing list](#) to stay up to date.

[Read more](#)

News Roundup

Every month, the Kamma team reviews the key stories on **Property Zero**: the path to carbon neutrality for UK homes

Climate Change Committee Urges EPC Revamp

The Climate Change Committee (CCC), the governments' leading advisor on tackling the climate crisis, has sent a letter to Lee Rowley MP, Parliamentary Under Secretary of State. It explains the need for improving the rating metrics used on domestic Energy Performance Certificates (EPC) so that it can more effectively inform consumers and support policies to reduce household emissions.



Its key messages are:

1. EPCs are no longer fit for purpose
2. EPC recommendations fail to deliver Net Zero homes
3. Improving EPC rating metrics means making them comprehensible, comparable, and suitable for policy
4. Domestic EPCs should cover: Total energy use intensity; space heating demand intensity; heating system type; and energy cost intensity
5. These reforms should not happen in isolation

Such improvement to the SAP methodology are long-awaited, and improvements mean more accurate data that can be used to inform household energy efficiency and emissions performance.

[Read more](#)

Social Housing Decarbonisation Fund

Over the coming month, applicants will be notified of whether they have successfully obtained support from the Social Housing Decarbonisation Fund (SHDF). All grant funding for Wave 2.1 projects must be spent by 31 March 2025.

The aim is to allocate up to £800 million to mostly low-income and social homes in the UK to install energy performance measures. This will increase the number of warm, energy efficient properties rated EPC C, lowering carbon emissions and providing better protection from fuel poverty. The funding will also continue to support growth in the green jobs market and retrofit sector.

Without clear and accurate property data, it's a challenge for housing providers to find properties that are currently rated below an EPC C and therefore eligible for consideration. At Kamma, we filter the portfolio down to property-level, providing an environmental profile for all 36 million properties in the UK. Each property is matched to a tailored list of retrofit recommendations, delivering the quickest and most cost-efficient route to regulatory compliance.

[Read more](#)

Retrofit Explorer

Driving a retrofit revolution

Assess any UK property and optimise the retrofit journey, delivering MEES compliance and energy savings plans

Answers the pivotal question of how much will it cost to get a property to EPC Band C or above

Recommends improvements from up to 200,000 combinations while adjusting for cost and energy saving specifications

Available for all 36 million properties in the UK, covering gaps in the EPC register



Why use it?

Delivers on multiple use cases



Introduce retrofit funding for new and existing customers

Educate and inform on the route to greener lending



Increase broker satisfaction and improve deal flow

Give brokers the tools they need to support and sell to customers



Underwrite for new MEES legislation now

Factor climate-driven credit risk into mortgage decisions



Support ESG objectives and drive to Net Zero

Deliver truly green lending that quantifiably reduces emissions

[Book a demo](#)

If you'd like to see the power of the Kamma platform in action, you can book a demo with us

kammadata.com

Putting Property on the Pathway to Net Zero

Last week, London's Brunel Museum played host to Kamma's first event of 2023

The historic location inspired a memorable discussion between mortgage lenders and other property professionals.

The focus of the evening was the role of data and partnerships in unlocking green finance opportunities and Net Zero for lenders.

Today's homes were not built to deal with today's challenges. In fact, less than 50,000 homes were Net Zero ready in 2020. A series of speakers and a panel discussion brought together new ideas from across the industry on how these problems could be addressed.

What was covered?

The show started with an opening speech from Kamma's CEO Orla Shields, who laid out why action on Net Zero is so critical to the sector. This was swiftly followed by Kamma's Chief Growth Officer, Joe Webb, who shared insight on how to act, referencing Kamma's [latest data and analysis on the UK housing market and energy efficiency](#).



Alex Maddox, keynote speech

Alex Maddox, Capital Markets and Digital Director at Kensington Mortgages, followed up as the evenings' keynote to discuss the Finsbury Square 2021-1 Green Bond - the UK's 1st green bond in the UK asset backed securities (ABS) market.



Panel discussion

Putting Property on the Pathway to Net Zero was closed by an expert panel discussion, including:

- Hugo Davies, Chief Lending Officer, LendInvest;
- Neil Sampson, Chief Product and Innovation Officer, Kamma;
- Neil Richardson, ESG Sustainability Director, OSB;
- Simon Rayner, Analyst, The Climate Change Committee;
- Mat Ilic, Co-founder and CEO, Greenworkx.

Moderated by Orla Shields, the panel presented ideas and case studies on how to approach the use of data, cooperate between sectors, finance decarbonisation, upskill the workforce, and create green growth opportunities for lenders.

[Retrofit Explorer
explainer video](#)

Contact us now to find out more about how **Kamma** can support your business to file disclosures, de-risk, and manage property-related assets

Get in touch

How can Kamma help

Kamma works with mortgage lenders, letting agents, local authorities, property funds, housing associations, financial services, and other property-related businesses, supporting their drive to Property Zero. We combine world-leading data collection and address-matching with insightful analysis to articulate the fastest and most cost-effective route to Net Zero. We ensure regulatory compliance, manage risk, identify green growth opportunities and qualify green assets.



Visit the site at

kammadata.com

Speak to the team

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