

21 July 2023

Climate Disclosure Unit

Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: climatereportingconsultation@treasury.gov.au

CC: The Hon Dr Jim Chalmers MP, The Hon Chris Bowen MP

Dear Climate Disclosure Unit,

RE: Property Council Submission to the second Climate-related Financial Disclosure Consultation Paper

The Property Council of Australia welcomes the opportunity to provide comments on the second *Climate-related Financial Disclosure Consultation Paper*.

About us

The Property Council of Australia is the leading advocate for Australia's largest industry – property. Our industry represents 13% of Australia's GDP, employs 1.4 million Australians (more than mining and manufacturing combined) and generates \$72 billion in tax revenues. Property Council members invest in, design, build and manage places that matter to Australians across all major built environment asset classes.

Australia's property industry leaders are world leaders in sustainability. They have a demonstrated commitment to ESG, topping indices like the Global Real Estate Sustainability Benchmark and the Dow Jones Sustainability Index for twelve consecutive years. Most of our leading members have net zero goals by 2030 or before (Scopes 1 & 2), with several having reached it already at a fund level. Our members have a long-term stake in ensuring our capital and regional cities thrive and want to see decisive action on climate mitigation and adaptation to avoid the worst projected impacts of climate change.

The Australian property industry has also shown global leadership on social sustainability initiatives, including gender diversity through the Property Champions of Change and the establishment of world first industry-wide online platforms to tackle modern slavery risks in supply chains and measure social impact in the sector.

General comments

The Property Council supports a global approach to the development and local implementation of sustainability disclosure standards. We note that Treasury has adopted six principles in

guiding the climate-related financial disclosure reforms and the final design of the new requirements – namely **support climate goals, improve information flows, well-understood, internationally aligned, scalable and flexible** and **proportional to risk**. Our responses align broadly with these principles.

We support Australia's alignment with the recently released inaugural IFRS S1 and S2 standards. Our overarching goal should be Australia's alignment with globally consistent, comparable, reliable, and assurable corporate reporting systems to provide all stakeholders with a clear and accurate picture of an organisation's ability to create sustainable value over time. It will provide businesses with the necessary framework to accurately and consistently report how they are responding to climate change and supporting the decarbonisation of our economy, as well as unlock the opportunities of the global momentum in sustainable finance.

Key priorities

We have included a detailed submission addressing the Treasury's proposals at **Attachment A** for your reference.

The Property Council's key priorities in relation to the implementation of Climate-related Financial Disclosure are the following:

1. **The proposed reporting thresholds laid out in the consultation paper are appropriate.** The Property Council supports the thresholds established for the three proposed reporting groups. The end goal of requiring all entities that meet the threshold laid out in Chapter 2M to make climate-related financial disclosure appropriately balances organisational capacity to report and climate-related impact. This approach should be supported by an adequate phasing approach.
2. **The timing proposed to phase in reporting is inadequate to allow industry preparedness.** We understand the desire to establish a mandatory reporting regime as soon as practicable, however, we consider this timeframe unrealistic given the very recent release of IFRS S1 and S2 standards. We recommend the standards apply no earlier than reporting periods commencing 24 months *following the establishment of a local regulatory implementation framework and governance mechanisms to oversee local implementation*. Should the legislation be passed in FY24, we suggest the following implementation dates:
 - **Group 1: FY26 onwards**
 - **Group 2: FY27 onwards**
 - **Group 3: F28 onwards**
3. **The principle of financial materiality is a robust approach to disclosure.** The principal audience for climate-related financial disclosure will be existing and prospective investors, lenders and other creditors. It therefore is congruent that information disclosed in the process should align with what is material for decisions made by this cohort.
4. **Disclosure of Scope 3 material emissions is complex in the property sector and should be approached with caution.** The property sector has complex and far-ranging supply chains, barriers to obtaining tenancy electricity consumption data, and no agreed way to assess embodied emissions consistently. With notable variations across asset classes, this makes it extremely challenging to quantify and report on Scope 3 emissions. We recommend that initially, reporting on Scope 3 emissions be voluntary with a transition to mandatory as reporting methods mature over time.

5. **There is a need to provide industry-specific reporting metrics and guidance.** The Property Council and its members would welcome further engagement on establishing the parameters for industry specific, robust disclosure guidelines that deliver sound information to the investment community and reduce reporting burdens. It will be essential to agree a common approach and deliver comparable climate-related financial disclosures across asset types and organisations.
6. **We do not support the eventual requirement that all disclosures have reasonable assurance.** The cost and effort to obtain reasonable assurance over all aspects of reporting outweighs any value to investors. We propose that reasonable assurance only be required for financial impacts to financial statements. All other aspects (governance practices, scenario analysis, transition plans and all GHG emissions) should be subject to limited assurance in a phased manner as tabled by Treasury.
7. **Both location and market-based carbon accounting should be included, aligned with the GHG Protocol.** The consultation paper proposes that companies should report the same emissions and energy data in their reports as is required by NGERs which excludes market-based carbon accounting. We recommend alignment with the GHG Protocol that recommends the use of location and market-based accounting.

The Property Council looks forward to further engagement on this important issue to ensure the sustainability achievements and competitiveness of our property market is recognised on a global scale. Please reach out to [REDACTED], National Policy Manager – Sustainability and Regulatory Affairs at [REDACTED] should you wish to discuss this submission in further detail.

Sincerely,

[REDACTED]

[REDACTED]

Chief Executive

Property Council of Australia

Attachment A – Climate Related Financial Disclosure

Property Council detailed submission

| Treasury Proposal | Property Council Response |
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| Reporting entities and phasing | |
| <p>Proposal: that all entities that meet prescribed size thresholds and that are required to lodge financial reports under Chapter 2M of the Corporations Act 2001 (Cth) (Corporations Act) would be required to make climate-related financial disclosures.</p> | <p>Supported.</p> <p>The Property Council supports the end goal of requiring all entities that meet the thresholds laid out in Chapter 2M to make climate-related financial disclosure. This approach should be supported by an adequate phasing approach (see response below).</p> <p>We seek further information on how this would apply to Stapled Groups and fund managers (equity accounted, proportionate consolidation or other method based on control?). For Stapled Trusts under Chapter 2M Corps Act, the individual trusts of large stapled entities would be caught and be required to report at Trust level. This would further apply to subsidiaries if the group is reporting. This process will be onerous and may increase costs of implementation while not providing investors with additional useful information. We recommend that subsidiaries and stapled groups' individual trusts should be excluded.</p> |
| <p>Proposal:</p> <p>Group 1, 2024-25 onwards</p> <p>Entities required to report under Chapter 2M of the Corporations Act and that fulfill two of the three thresholds:</p> <ul style="list-style-type: none"> – Has over 500 employees; – The value of consolidated gross assets at the end of the financial year of the company and any entities it controls is \$1 billion or more; – The consolidated revenue for the financial year of the company and any entities it controls is \$500 million or more. <p>AND</p> | <p>Partly opposed.</p> <p>The Property Council supports the thresholds established for Groups 1 to 3 as a sensible phasing in of reporting entities.</p> <p>However, we believe that commencing mandatory reporting for Group 1 in 2024-25 will not provide adequate time for reporting entities and assurance bodies to prepare.</p> <p>We understand the desire to establish a mandatory reporting regime as soon as practicable, however, we consider this timeframe unrealistic given the very recent release of IFRS S1 and S2 standards.</p> <p>Organisations will need time to understand the reporting requirements, set up systems</p> |

Entities required to report under Chapter 2M of the Corporations Act that are a 'controlling corporation' under the NGER Act and meet the NGER publication threshold

Group 2, 2026-27 onwards

Entities required to report under Chapter 2M of the Corporations Act and that fulfill **two of the three** thresholds:

- Has over 250 employees;
- The value of consolidated gross assets at the end of the financial year of the company and any entities it controls is \$500 million or more;
- The consolidated revenue for the financial year of the company and any entities it controls is \$200 million or more.

AND

Entities required to report under Chapter 2M of the Corporations Act that are a 'controlling corporation' under the NGER Act and meet the NGER publication threshold.

Group 3: 2027-28 Onwards

Entities required to report under Chapter 2M of the Corporations Act and that fulfill **two of the three** thresholds:

- has over 100 employees;
- The value of consolidated gross assets at the end of the financial year of the company and any entities it controls is \$25 million or more;
- The consolidated revenue for the financial year of the company and any entities it controls is \$50 million or more.

AND

Entities required to report under Chapter 2M of the Corporations Act that are a 'controlling corporation' under the NGER Act.

to collect and report the required information, and engage experts to provide assurance of the relevant data as required. The nascent nature of climate-related financial disclosures means there is currently a lack of agreed methodologies and systems in place to collect and report the required data, and there is a limited pool of professionals who are available to provide expert assurance services.

As such, we recommend the standards apply no earlier than reporting periods commencing 24 months *following the establishment of a local regulatory implementation framework and governance mechanisms to oversee local implementation.*

Should the legislation be passed in FY24, we suggest the following implementation dates:

Group 1: FY26 onwards

Group 2: FY27 onwards

Group 3: F28 onwards

Materiality

Proposal: Principles of financial materiality would apply.

Supported.

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| | <p>The principal audience for climate-related financial disclosure will be existing and prospective investors, lenders and other creditors. It therefore is congruent that information disclosed in the process should align with what is material for decisions made by this cohort.</p> <p>This approach further aligns with the international approach proposed by the ISSB. Ensuring Australia is harmonised with the international approach will deliver climate-related financial disclosure that are comparable to international jurisdictions and facilitate decision making by potential investors. The property sector would benefit from clarifying statements on the applicability of financial materiality to scope 3 emissions.</p> |
| Governance | |
| <p>Proposal: From commencement, companies would be required to disclose information about governance processes, controls and procedures used to monitor and manage climate-related financial risks and opportunities.</p> | <p>Supported.</p> <p>Governance is important in climate-related financial disclosure as it promotes transparency, accountability, and risk management. It enhances investor confidence, ensures regulatory compliance, and facilitates long-term value creation. Good governance enables organisations to engage stakeholders and address the challenges and opportunities of climate change effectively. It should therefore form part of initial requirements in financial disclosure.</p> |
| <p>Proposal: From commencement, reporting entities would be required to use qualitative scenario analysis to inform their disclosures, moving to quantitative scenario analysis by end state.</p> | <p>Conditionally supported.</p> <p>While we believe reporting will improve in sophistication over time as the reporting entities upskill, it may be premature to predict the ability to accurately deliver quantitative scenario analysis. Instead the market should be left to reward the reporting entities that generate the most comprehensive reporting which may include quantitative scenario analysis.</p> |

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| <p>Proposal: From commencement, reporting entities would be required to disclose climate resilience assessments against at least two possible future states, one of which must be consistent with the global temperature goal set out in the Climate Change Act 2022.</p> | <p>Supported.</p> <p>The Property Council supports disclosure of resilience and adaptation requirements against at least two possible future states. However, TCFD recommends using 3-4 scenarios. We suggest this proposal be updated to align with TCFD recommendations.</p> <p>We support the mandatory use of the global temperature goal set out in the Climate Change Act 2022 to underpin one future state analysis.</p> |
| <p>Transition planning and climate related targets</p> | |
| <p>Proposal: From commencement, transition plans would need to be disclosed, including information about offsets, target setting and mitigation strategies.</p> | <p>Conditionally supported.</p> <p>Many organisations from the property sector already have transition plans in place supported by net zero strategies. This information will be essential to investors seeking to gain an understanding of the climate-related risks and opportunities faced by a reporting entity.</p> <p>As stated in our submission to the initial consultation dated 23 February 2023, this should be supported by an “armistice period” whereby respondents would be sheltered from class actions – only the regulator could take action if they deemed it necessary.</p> <p>We further advise that the Property Council will shortly be launching some thought leadership on the role of offsets in the property sector. This report finds a transitional role is appropriate for high integrity offsets with qualitative attributes relating to permanence, additionality, leakage and co-benefits.</p> |
| <p>Proposal: From commencement, all entities would be required to disclose information about any climate-related targets (if they have them) and progress towards these targets.</p> | <p>Supported.</p> <p>Australian property companies have consistently topped global sustainability indices. The majority of them have robust climate-related targets underpinned by transparent and concrete sustainability strategies.</p> |

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| | <p>It is essential that all entities would be required to disclose information about their climate-related targets. We further support Treasury's proposal that all companies be required to adopt and disclose transition plans that reflect actions to limit global warming to 1.5C.</p> |
| Risks and opportunities | |
| <p>Proposal: From commencement, entities would be required to disclose information about material climate-related risks and opportunities to their business, as well as how the entity identifies, assesses and manages risk and opportunities.</p> | <p>Supported.</p> <p>Disclosure of material climate-related risks and opportunities, as well as how an entity identifies, assesses, and manages them, is important in climate-related financial disclosure as it allows financial stakeholders to make informed decisions and evaluate risk management practices. It is therefore essential that this aspect be included in disclosures from the commencement.</p> |
| <p>Proposal: From commencement, scope 1 and 2 emissions for the reporting period would be required to be disclosed.</p> | <p>Supported.</p> <p>Scope 1 and 2 emissions are easily accessible and quantifiable for reporting entities from the property sector and should be disclosed as part of this process.</p> |
| <p>Proposal: Disclosure of material scope 3 emissions would be required for all reporting entities from their second reporting year onwards. Scope 3 emissions disclosures made could be in relation to any one-year period that ended up to 12 months prior to the current reporting period.</p> | <p>Opposed.</p> <p>The property sector has complex and far-ranging supply chains, barriers to obtaining tenancy electricity consumption data, and no agreed way to assess embodied emissions consistently. With notable variations across asset classes, this makes it extremely challenging to quantify and report on Scope 3 emissions.</p> <p>Work is underway to create a framework for measuring embodied emissions in the built environment, but it is not yet accessible. Following its implementation, we support the inclusion of embodied emissions in reporting.</p> <p>Further, there are regulatory barriers in place that prevent access to tenancy data – government should take action to reform regulation to allow asset owners to access tenancy energy data. This could be done</p> |

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| | <p>initially by expanding the scope of the Commercial Buildings Disclosure program to include tenancies.</p> <p>Until these issues are addressed, reporting of Scope 3 emissions should be done on a voluntary basis and allow the market to determine their preferred approach to disclosure.</p> |
| Industry based metrics | |
| <p>Proposal: By end state, reporting entities would be required to have regard to disclosing industry-based metrics, where there are well-established and understood metrics available for the reporting entity.</p> | <p>Supported.</p> <p>For the reasons laid out in the previous response, there is a need for an industry specific approach for the property sector. The Property Council and its members would welcome further engagement on establishing the parameters for industry specific, robust disclosure guidelines that deliver sound information to the investment community and reduce reporting burdens.</p> <p>In particular, we commend to you the established and robust industry benchmarks such as NABERS and Green Star that should form part of built-environment specific metrics.</p> |
| Modified liability approach | |
| <p>Proposal: Climate-related financial disclosure requirements would be drafted as civil penalty provisions in the Corporations Act. The application of misleading and deceptive conduct provisions to scope 3 emissions and forward-looking statements would be limited to regulator-only actions for a fixed period of three years.</p> | <p>Supported.</p> <p>The Property Council supports the requirements of climate-related financial disclosure to be drafted as civil penalty provisions under the Corporations Act. Further, we support the application of misleading and deceptive conduct provisions to Scope 3 emissions and forward-looking statements should be limited to regulator-only actions for a fixed period of three years.</p> |