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Mr Erkki Liikanen, *Chair*
IFRS Foundation
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Email: commentletters@ifrs.org

Dear Mr Liikanen

Property Council submission to Sustainability Reporting Consultation Paper

The Property Council welcomes the opportunity to comment on the IFRS Foundation's Consultation Paper on Sustainability Reporting.

The Property Council of Australia is the leading advocate for Australia's biggest industry and biggest employer; our industry represents 13% of Australia's GDP and employs 1.4 million Australians. Our members invest in, design, build and manage homes, retirement villages, shopping centres, office buildings, industrial areas, education, research and health precincts, tourism and hospitality venues and more.

Buildings account for over half Australia's electricity usage and almost a quarter of emissions through their operations[1] so the property sector has a significant role to play in mitigating and adapting to the risks presented by climate change.

Over the last decade, market leading Australian property companies have demonstrated the potential for collaboration on significant ESG issues and have reduced their emissions intensity by 55% compared to a 2005 baseline[2]. As a result, Australian property companies consistently top international benchmarks like the Global Real Estate Sustainability Benchmark and the Dow Jones Sustainability Index with many having committed to achieve net zero emissions by 2030 or sooner.

The Australian property industry has also shown global leadership on social sustainability initiatives, including gender diversity through the Property Male Champions of Change and the establishment of a world first industry-wide online supplier platform to tackle modern slavery in property operations and supply chains.

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[1] ClimateWorks for ASBEC, *Low Carbon, High Performance,* 2016

[2] Better Buildings Partnership, Annual Results FY19, 2019

The Australian property sector has a strong track record of identifying the most material ESG issues that require collective effort to address. They do this by collaborating on industry thought leadership, developing tools and resources that allow the broader industry to measure and report their progress, as well as advocating public policy change through the Property Council. Our industry is therefore well placed to comment on the proposals put forward by the IFRS Foundation.

In principle, the Property Council of Australia supports the development of a globally consistent framework for sustainability reporting to provide investors and other key stakeholders with relevant and comparable sustainability information to make informed decisions. Our submission below sets out challenges that will need to be addressed in establishing consistent, globally recognised sustainability reporting.

General Comment

As the foundation responsible for the financial reporting standards used by more than 140 jurisdictions, the IFRS Foundation has the capacity to deliver international recognised sustainability reporting standards. The IFRS Foundation's experience and recognition with regulators at a global level is a strength in developing and administering sustainability reporting standards. The obvious synergies with a global accounting reporting framework will assist with integrating sustainability reporting standards, reducing duplication for reporting entities.

Governance

Board Structure

Whilst there would be synergy between the International Accounting Standards Board (IASB) and a new sustainability standards board, there needs to be a separate governance structure. In considering the composition of the board, diversity of regions (including ASPAC), and sector specialists such as real estate would need to be included. The board would also need to include appropriate ESG specialists as sustainability reporting differs from financial reporting.

Mandate

Regarding the board's mandate, while we agree that climate risk is the most time critical issue and warrants being an initial focus area, the board's mandate should not be limited to or designed with only this one issue in mind. It is important for the board to develop a broad ESG mandate with the ability to focus on material Environmental issues into the future (beyond the immediate challenge of emissions reduction and climate change) as well as material Social and Governance issues into the future.

A roadmap defining a long-term strategy

As one of its first acts, the Board should commit to an open and transparent process for developing a roadmap which includes a long-term strategy and identifies the most material ESG issues over the next 10 years as priorities for developing reporting standards. As these will evolve over time, the Board should also define a transparent process for the continued review and update of the roadmap and identification of material issues, with a need to align with other ESG frameworks in the market.

Reporting processes and guidelines

Interaction and alignment with other frameworks

It is important to consider existing reporting requirements to avoid duplication, such as with the Task Force on Climate-related Financial Disclosures (TCFD). We would recommend engaging with providers of established sustainability frameworks such as the Global Reporting Initiative (GRI), Value Reporting Foundation (formerly the Sustainability Accounting Standards Board (SASB) and the International Integrated Reporting Council (IIRC) now merged), Carbon Disclosure Project (CDP), and the Climate Disclosure Standards Board (CDSB), and the establishment of MOUs where applicable.

A focus on materiality and actual performance

We recommend that the sustainability reporting framework and standards includes a suitable materiality lens, similar to financial reporting requirements.

The Australian property industry's leadership on global sustainability benchmarks is in large part due to the industry's long held focus on measuring performance through government led and industry benchmarks. These include the National Australian Built Environment Rating System (NABERS), Green Star (which is produced by the Green Building Council of Australia) and the National Greenhouse and Energy Reporting Scheme (NGERS) run by the Federal Government which regulates companies emitting above a certain threshold to measure and report their emissions in a consistent way.

We would strongly discourage the use of metrics which are not grounded in the actual performance of real assets as this goes firmly against the intention of accounting standards which are grounded in quantifiable financial and other impacts with reference to measurable data. In the past, the Australian property sector has disengaged from some reporting frameworks that do not focus on measurable performance against the most material issues for the Australian property sector.

Recognition of regional data collection and performance benchmarking

As noted above, Australia and other countries will have well established standards for data collection and reporting, some of which are already regulated by governments. Any international framework should recognise existing systems and not go to the level of detail which would seek to duplicate or require different standards of measurement to those already regulated by governments.

In Australia, there has also been extensive work by the financial services sector under the banner of the Climate Measurement Standards Initiative (CMSI) to provide detailed guidance to reporting entities on their expectations around consistent reporting on climate risk, building on the Taskforce for Climate-related Financial Disclosures (TCFD). We expect this will have significant take up in Australia over the next few years.

Timeframes for development

The Property Council of Australia acknowledges the challenge of establishing a new sustainability standards board and framework. However, there is growing momentum to report against TCFD and mandate sustainability reporting requirements.

Many leading Australian property companies will achieve net zero emission before or by 2030, at which point the industry will have well and truly redefined its most material ESG issues and proceeded to benchmark performance in those areas. We therefore welcome expediency from the IFRS Foundation, balanced with wide consultation and transparency of process.

Additional Considerations

Valuations

Consideration should also be given to how sustainability metrics, including for example climate risk reporting and TCFD disclosures, interact with valuation principles and methodology. For example, projected cash flow savings from energy savings measures are already captured in the valuation of assets that sit on property companies' balance sheets. It will be important to ensure there is no double counting of such initiatives with respect to different TCFD scenarios. We would also like to see other aspects, such as higher/longer tenant retention as a result of mitigating risk reflected in valuations as part of this process.

Developing a common taxonomy

We support this as an important focus area for the sustainability standards board and we'd like to emphasise the need for this work to go beyond Environment and include alignment on relevant Social and Governance terminology.

We would appreciate the opportunity to discuss these issues further in the lead up to the development of the sustainability reporting standards. Please contact Belinda Ngo, Executive Director – Capital Markets on +61 400 356 140 or bngo@propertycouncil.com.au.

Yours sincerely

Ken Morrison
Chief Executive