2023

Climate-Related Financial Disclosure Consultation Paper Australian Treasury

RICS®

Introduction

The Royal Institution of Chartered Surveyors (RICS) warmly welcomes the proposed introduction of standardised, internationally-aligned reporting requirements for businesses to make climate-related financial disclosures and the development of a broad sustainable finance framework for Australia.

RICS as the global, profit for purpose, professional body for chartered surveyors plays a crucial role in global discussions about how to reduce the operational and embodied carbon footprint in the built environment both on an individual level and in the work that it does in coalition with others.

Our purpose, under royal charter, is to act in the public interest to secure the advancement and facilitate the acquisition of knowledge in the professional field of surveying. Our motto is Est Modus in Rebus which translates to 'there is proper measure in things' and this couldn't be more important than in the context of the measurement of emissions.

Given the global nature of the construction and investment world the key challenge for Australian policy makers is to put in place appropriate policy settings that are consistent with existing global Task Force for Climate Related Disclosures (TCFD) endorsed standards.

The Australian government has a particularly important role to play in determining the way forward in terms of decarbonising construction and supporting greater sustainability of the built environment into the future as the world seeks to reduce emissions.

A number of policy initiatives are under consideration in Australia in pursuit of this goal and as these policies progress via consultation and public debate one thing is clear; the necessity to ensure that Australian policies align with what is already being done in Australia and overseas to prevent rework and additional administrative burden.

Global standards and guides such as International Cost Management Standard, third edition (ICMS 3) provides a globally accepted and understood way of benchmarking, measuring and reducing embodied carbon and assessing the whole life carbon impact of a built environment asset and should form part of the Australian climate-related financial disclosure policy landscape moving forward.

The Importance of Reducing Emissions from Construction

Concrete accounts for 8% of all greenhouse gas emissions globally[1]. If concrete were a country it would be the third largest emitter in the world behind China and the United States.

The United Nations Environment Programme's *2022 Global Status Report for Buildings and Construction*, November 2022[2] confirms that the built environment accounts for 43% of greenhouse gas emissions globally.

The *Embodied Carbon & Embodied Energy in Australia's Buildings* published by Green Building Council of Australia and thinkstep-anz with the support from the Australian Government's Department of Industry, Science, Energy and Resource determined that embodied carbon made up 16 per cent of Australia's built environment emissions in 2019 and that this could increase by 85 per cent in 2050[3].

[1] Cement production is massive contributor to carbon dioxide emissions globally | World Economic Forum (weforum.org)
[2] 2022 Global Status Report for Buildings and Construction | UNEP - UN Environment Programme
[3] Embodied Carbon & Embodied Energy in Australia's Buildings | Green Building Council of Australia (gbca.org.au)

The Role of TCFD Endorsed Standards in Reducing Carbon Emissions in Construction

Construction is a globalised sector with global construction firms, their clients, investors and suppliers already acting to reduce the carbon footprint of the industry at a global level.

RICS, as the profit for purpose, standard setting, global professional body for surveyors around the world, has played a pivotal role in terms of helping to create globally consistent standards and guides, over a number of years including:

- International Cost Management Standard, third edition, November 2021 (ICMS3)[4] [5]; and
- Whole Life Carbon Assessment for the Built Environment Guide (WLCA Guide), November 2017, 1st edition[6]

Importantly these standards have helped to provide a universally recognised protocol for embodied and operational carbon that can be understood across jurisdictions and across sectors such as construction, sustainability and finance and helped set the direction for the sector globally.

[4] ICMS: International Cost Management Standards (rics.org)
[5] ICMS 3 was developed in conjunction with the ICMS Coalition for which RICS was the founding chair www.icms-coalition.org/coalition-members/
[6] Whole Life Carbon Assessment for the Built Environment (rics.org)

International Cost Management Standard 3

ICMS 3 provides a global standard for the benchmarking and reporting of construction project costs and carbon, providing a consistent method for carbon life cycle reporting across construction projects for any type of built environment asset including buildings, freeways, railways, wind farms and offshore structures.

ICMS 3 is a TCFD endorsed standard that has been developed to map a consistent pathway towards addressing climate change globally[7].

ICMS 3 was developed by the ICMS Coalition which is comprised of 49 non-government and not-for-profit professional bodies with the aim of creating a transparent and inclusive standard setting process to gain comparable and consistent data.

As a reporting tool and global standard it can sit above more detailed costing and carbon analysis models permitting comparability across a range of different countries and practices.

ICMS 3 has been designed to allow governments, professionals, firms and financial institutions to benchmark similar projects within their jurisdictions and across borders and have transparency of costs and embodied and operational carbon across the life cycle of projects.

RICS is also pleased to have developed the WLCA Guide which was issued on 20 November 2017.

The Guide represents international best practice in a whole of life approach to reducing carbon emissions within the built environment that includes both operational and embodied carbon emissions together over the project's expected life cycle and should be used in conjunction with ICMS 3.

The WLCA Guide a vitally important part of the suite of standards that supports and guides sustainability in the construction sector around the world.

RICS is currently working on an updated version of the Guide and expects to release the consultation draft of the 2nd edition for comment in March 2023.

[7] ICMS: Global Consistency in Presenting Construction Life Cycle Costs and Carbon Emissions (3rd Edition) - TCFD Knowledge Hub (tcfdhub.org)

Section Specific Comments

Reform Principles

RICS strongly supports the proposed six principles on which an Australian climate-related financial disclosure framework would be based as outlined in the Consultation Paper.

Given the global nature of construction and the already well established global sustainability standards that are in place for construction we particularly support the principle of the standards being internationally aligned.

This will prevent rework and additional effort for a sector that already has arrangements and well established practices in place that align with TFCD endorsed standards.

Question 1 What are the costs and benefits of Australia aligning with international practice on climate-related financial risk disclosure (including mandatory reporting for certain entities)?

Internationally developed global standards such as ICMS3 have been widely adopted and used around the world.

It provides a well understood and commonly accepted protocol for carbon reporting.

Should the Australian government decide to adopt a different protocol it would mean that:

a) International construction and building software firms would have to do additional work to comply with Australian legislation
b) It would create a uniquely Australian carbon reporting scheme when one is already in use around the world
c) It would put Australia out of step with the rest of the world especially as updates are made to international standards

Leading global firms that operate in Australia have committed to using ICMS 3[8] and / or the WLCA Guide including AECOM, Arcadis, Arup, Turner and Townsend, Faithful+Gould, In-Touch Advisory and Mott McDonald.

[8] List of ICMS Partners | International Cost Management Standard (icms-coalition.org)

Australian carbon reporting and quantity firms are also using ICMS 3 and the WLCA Guide such as In-Touch Advisory, Logic Group and Slattery.

Leading building software companies are also using ICMS 3 including Autodesk, Rider Levitt Bucknall and RIB Group.

Importantly ICMS 3 has also recently been mapped to the Australian Cost Management Manual which is maintained by the Australian Institute of Quantity Surveyors who are an ICMS Trustee[9] as well as members of the ICMS Coalition.

Lastly, in keeping with our profit for purpose charter and the values of the ICMS Coalition ICMS 3 is a free standard and can be downloaded in spreadsheet form for anyone who wants to use it.

Question 2 Should Australia adopt a phased approach to climate disclosure, with the first report for initially covered entities being financial year 2024-25?

Overseas entities with existing climate-related financial disclosure reporting capabilities are already operating in Australia and have the necessary supports and information to fulfil their overseas requirements.

However those firms that operate solely within Australia or jurisdictions who are not already reporting to investors who have signed up to TCFD disclosures may need some time to put in place the necessary arrangements to support the new reporting regime.

There are however a number of initiatives underway within Australia that if implemented will help Australia move more quickly to a position where it can better accommodate carbon reporting, measurement, analysis and reduction.

These include the recently released Infrastructure Australia *Guide to assessing greenhouse gas emissions (interim)*[10] as a precursor to the Infrastructure Australia Assessment Framework being updated, the recently released National Australian Building Energy Ratings (NABERS) Embodied Emissions Consultation[11] and the NSW Decarbonising Infrastructure Delivery consultation[12].

[9] Trustees | International Cost Management Standard (icms-coalition.org)
[10] Guide to greenhouse gas emissions (interim).pdf (infrastructureaustralia.gov.au)
[11] NABERS Embodied Emissions Public Consultation | NABERS
[12] Infrastructure NSW : Decarbonising Infrastructure Delivery – NSW Government Discussion Paper

Combined these initiatives should put in place the appropriate foundation to allow Australian businesses who are not already considering carbon as part of their operating arrangements to meet TCFD endorsed standards.

As a result priority and support should be directed to ensuring that these initiatives are implemented as quickly as possible.

Question 3.1 To which entities should mandatory climate disclosures apply initially?

RICS has no view on this matter although notes that given the large number of small companies in Australia consideration should be given to their carbon footprint and how best to encourage them to reduce their carbon emissions.

Question 3.2 Are there any other types of entities (that is, apart from large, listed entities and financial institutions) that should be included in the initial phase?

RICS supports financial Institutions providing climate-related financial risk disclosure on their investments activities.

Question 4 Should Australia seek to align our climate reporting requirements with the global baseline envisaged by the International Sustainability Boards?

RICS supports Australia aligning its climate reporting requirements with that envisaged by the International Sustainability Standards Board for the reasons outlined above.

Question 5 What are the key considerations that should inform the design of a new regulatory framework, in particular when setting overarching climate disclosure obligations (strategy, governance, risk management and targets)?

RICS is generally supportive of the approach outlined in the Consultation Paper but wishes to observe that TCFD endorsed standards such as ICMS have been developed by leading practitioners around the globe and has been led by the sector to which it applies.

On this basis RICS submits that the regime should accommodate global standards and Australian standards and require both if two standards are already in place.

Overall though Australian standards should only be produced, developed or adopted where there is an overarching need demonstrated that it is required.

Question 6 Where should new climate reporting requirements be situated in relation to other periodic reporting requirements? For instance, should they continue to be included in an operating or financial review, or in an alternative separate report included as part of the annual report?

RICS has no view in relation to this matter.

Question 7 What consideration should apply to materiality judgements when undertaking climate reporting, and what should be the reference point for materiality (for instance, should it align with ISSB guidance on materiality and is enterprise value a useful consideration)?

RICS supports Australia following the ISSB approach as determined from time to time.

Question 8 What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?

Chartered surveyors operate around the globe and carry significant responsibility particularly in terms of the level of financial investment and resources and matters of public safety that they can be responsible for.

All chartered surveyors are subject, including chartered quantity surveyors who complete ICMS 3 reporting, to strict Rules of Conduct[13] and professional standards requirements with respect to how they assess projects against the standard itself.

Chartered surveyors and the 10,000 firms around the world which elect to be regulated by RICS are subject to scrutiny by our Standards and Regulation Board[14] and can face significant sanctions and censure activities including public expulsion from RICS if they are found to have breached our standards and rules.

Due consideration would also need to be given with respect to professional regulation is sufficient or whether other oversight mechanisms are required.

[13] Rules of Conduct (rics.org)
[14] Standards and Regulation Board (rics.org)

Question 9 What considerations should apply to requirements to report emissions (Scope 1, 2 and 3) including use of any relevant Australian emissions reporting frameworks?

In the majority emissions and carbon reporting such as that contemplated under ICMS 3 for construction fall within Scope 3 emissions.

As outlined above very significant proportion of emissions arise from the sector and as such Australia should move to Scope 3 emissions reporting.

Question 10 Should a common baseline of metrics be defined so that there is a degree of consistency between disclosures including industry specific metrics?

Australia could consider a common baseline of metrics to provide clarity but it should be consistent with international norms.

Question 11 What considerations should apply to ensure covered entities provide transparent information about how they are managing climate related risks, including what transition plans they have in place and any use of greenhouse gas emissions offsets to meet their published targets?

RICS has no view in relation to this matter.

Question 12 Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?

RICS is supportive of a phased introduction of climate-related financial disclosures if needed.

Question 13 Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

13.1 How and by whom might any data gaps be addressed?

13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?

The ability to report on carbon associated with construction depends on the availability of carbon data at a product level basis.

Many construction and carbon assessment firms already have access to this information and there is excellent work being done at a per product level to conduct Environmental Product Declarations (EPDs) such as that being conducted by Steel Sustainability Australia[15].

Internationally a range of carbon databases have been or are being established.

In Australia NABERS has also put forward a proposal for a carbon database as it relates to buildings as part of its proposed Embodied Emissions Calculator and work also seems to be progressing in terms of similar activities for infrastructure related construction.

It is important that these initiatives are progressed as quickly as possible to help and support climate related financial disclosures in Australia to occur.

In addition due consideration should be given to what level of support, grants or other funding can be provided to smaller producers to allow them to produce carbon information for their products including EPDs.

Question 14 Regarding any supporting information necessary to meet required disclosures (for instance, climate scenarios), is there a case for a particular entity or entities to provide that information and the governance of such information?

See our answer to question 13 above.

[15] Steel Sustainability Australia - Certifying sustainable steel

Question 15 How suitable are the 'reasonable grounds' requirements and disclosures of uncertainties or assumptions in the context of climate reporting? Are there other tests or measures that could be considered to ensure liability is proportionate to inherent uncertainty within some required climate disclosures?

RICS is supportive of the reasonable grounds test as outlined in the Consultation Paper.

Many of our most qualified chartered surveyors, Fellows, can act as expert witnesses in cases of dispute and legal action if needed.

Question 16 Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements and how should these interactions be addressed?

RICS has no view in relation to this matter.

Question 17 While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?

RICS supports due consideration being given to how changes to sustainability reporting would be accommodated.

Question 18 Should digital reporting be mandated for sustainability risk reporting? What are the barriers and costs for implementing digital reporting?

ICMS 3 and its associated data standards provide a standardised protocol for digital reporting.

Question 19 Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?

RICS is supportive of any type of structure that supports a policy framework as discussed above.

About RICS

RICS is a not for profit, global professional body which was founded in the United Kingdom in 1868.

In 1881 RICS was incorporated by Royal Charter to secure the advancement and facilitate the acquisition of knowledge in the field of the profession of a surveyor, to maintain the usefulness of the profession and to act in the public interest.

Since that time RICS's work has remained true to our motto Est Modus in Rebus (there is proper measure in things) and we now have over 140, 000 RICS qualified and trainee professionals working across the globe including in the United Kingdom and Ireland, Europe, the Amercias, Middle East and Africa, China, South East Asia and the Pacific working across 17 different disclipines.

RICS's work to advance knowledge in the field of the profession includes the creation of global standards which provide certainty and consistency in fields such as land valuation, construction, infrastructure and property.

Key global standards published and maintained by RICS includes the Red Book Global Standard[16], International Valuation Standards[17], International Land Measurement Standard[18], International Cost Management Standard[19] and the International Building Operations Standard[20].

Chartered Surveyors can be admited at either member, associate or fellow status. RICS has a number of different specialisms including but not limited to land valuation, quantity surveying and construction, project management, infrastructure, planning and development, property finance and investment, corporate and commercial real estate, building control and building surveying.

[16] https://www.rics.org/uk/upholding-professional-standards/sector-standards/valuation/red-book/
[17] https://www.rics.org/uk/upholding-professional-standards/sector-standards/valuation/red-book/international-valuation-standards/
[18] https://www.rics.org/uk/upholding-professional-standards/sector-standards/land/
[19] https://www.rics.org/north-america/upholding-professional-standards/sector-standards/construction/icms-international-construction-measurement-standards/
[20] https://www.rics.org/north-america/upholding-professional-standards/sector-standards/real-estate/ibos/