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HIA Submission – Climate-related Financial Disclosure legislation Exposure Draft

Thank you for the opportunity for the Housing Industry Association (HIA) to submit a response on the Climate-related Financial Disclosure legislation following the release of the exposure draft.

About HIA

The Housing Industry Association (HIA) is Australia's only national industry association representing the interests of the residential building industry. As the voice of the residential building industry, HIA represents a membership of 60,000 across Australia.

Our members are involved in delivering more than 170,000 new homes each year through the construction of new housing estates, detached homes, low & medium-density housing developments, apartment buildings and completing renovations on Australia's 9 million existing homes.

HIA members comprise a diverse mix of companies, including volume builders delivering thousands of new homes a year through to small and medium home builders delivering one or more custom built homes a year. From sole traders to multi-nationals, HIA members construct over 85 per cent of the nation's new building stock.

The residential building industry has a wide reach into the manufacturing, supply and retail sectors including in the building product sector and HIA has a large number of building product, manufacturer, suppliers and retailers as members.

Introduction

HIA and members generally recognise the Australian government's commitment to reduce greenhouse gas emissions to 43 per cent below 2005 levels by 2030 and net zero by 2050. This is an ambitious goal in the global emissions reduction challenge.

It is recognised that Australia's manufacturing sector has an important role in meeting these commitments and the climate-related financial disclosure will assist in focusing their emissions reduction efforts at the business level.

However, HIA shares the concerns of other entities such as the Australian Chamber of Commerce and Industry (ACCI) who we are aware have made a number of submissions in the development of this legislation.

Like ACCI, HIA is concerned that as currently drafted, there are elements of the climate-related financial disclosure legislation that will create a heavy administrative burden on

businesses and there remains a number of questions and uncertainty on the reporting requirements.

This will be further compounded given the short time frame indicated for when these requirements are intended to commence.

It is not in anyone's interest that the Climate-related Financial Disclosure legislation be rushed and reporting requirements introduced that entities cannot meet.

Key issues requiring further detailed consideration

Specifically the issues related with the Climate-related Financial Disclosure requirements include:

- The Climate-related Financial Disclosure legislation requires a separate Sustainability Report to be prepared, in addition to financial statements.

This will greatly increase the administrative burden on businesses without improving the quality of the information that is reported. HIA is of the view submissions proposed reporting should be able to be performed using a simple, consistent approach to disclosure, to reduce costs and increase certainty for business.

- The sustainability report is required to include a climate statement and associated notes, prepared to meet the requirements of the AASB Sustainability Reporting Standard.
- However, the AASB Sustainability Reporting Standard is still being finalised, with consultation on the exposure draft closing on 1 March 2024 and then requiring resolution of consultation and finalisation of the provisions which could take a number of months in its own right.

It is therefore not considered appropriate or fair to industry to adequately prepare themselves with the introduction of mandatory climate-related financial disclosure from 1 July 2024, prior to release of the final version of the Sustainability Reporting Standard. The finalisation of the AASB Sustainability Reporting Standard should be supported in first instance with education and phase in period prior to this obligation for disclosure taking effect.

- While Scope 3 emissions are not required to be reported by entities in the first year during the transition period, it is mandatory to include Scope 3 emissions from the second year of reporting.

Scope 3 includes indirect emissions associated with the production of inputs (upstream) and the use of a product (downstream). There is no standardised reporting framework for reporting Scope 3 emissions. It is very difficult for entities to calculate Scope 3 emissions as they don't directly hold this information, but rely on third-parties (customers and suppliers) to provide this data or must estimate it. As a result, this data is often incomplete and inaccurate. Requiring entities to report Scope 3 emissions, have them audited and assurance provided represents a considerable risk to businesses.

- The sustainability reports must include at least two possible future scenarios, with one of the scenarios aligning with the Climate Change Act 2022. This two-scenario approach, where each business determines its own scenarios and metrics, will only lead to confusion.

HIA recommends that entities provide only one scenario and that a common baseline of metrics be established, and guidance provided, to ensure consistency in the data reported.

- HIA recommends that reporting of Scope 3 emissions be voluntary until businesses (large and small, all along the supply chain) are able to measure Scope 3 emissions with a high level of accuracy.
- Entities will be required to undertake mandatory audit and assurance of their climate disclosures to the same level as with financial reports, with the AASB Sustainability Standards to be given legal effect through amendments to the Corporations Act.

Yet the accounting sector is currently in the very early stages of developing expertise in climate-related auditing and assurance. Few accounting consultants and auditors have the necessary skills and experience to provide accurate assurance of Scope 1 and 2 emissions, with assurance of 3 emissions even more challenging and uncertain.

HIA is recommending that more time is needed for the necessary expertise in the climate-related auditing to develop and mature, so that climate-related assurance can be provided with accuracy and certainty. Only limited assurance should be required while this expertise is being developed.

More time is needed to introduce and educate industry

Overall, HIA is concerned that the process to introduce the Climate-related Financial Disclosure legislation is being rushed, so that it can be in place to commence on 1 July 2024.

There are many important elements such as the AASB Sustainability Standards, reporting of Scope 3 emissions and scenario analysis, auditing and assurance requirements, as well as protections for businesses given the uncertainty or many parts of the new laws are only partially developed or have not been fully considered.

These elements of the legislation represent a considerable risk for entities require to make this disclosure.

We ask that the release of the legislation be delayed and the transition period be extended, so that there is time to address these issues and once these matters are settled that it is supported by an industry education program prior to its introduction.

Yours sincerely

HOUSING INDUSTRY ASSOCIATION LIMITED

A handwritten signature in blue ink, appearing to read 'Simon Croft', is written over a faint, larger blue ink signature that is partially obscured.

Simon Croft
Chief Executive – Industry Policy