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Submitted to climate@xrb.govt.nz

2 May 2022

Submission on New Zealand Climate Standard 1 (NZ CS1) Climate-related Disclosures (CRD) - Strategy, and Metrics and Targets Consultation Document

1. Executive Summary

Thank you for the opportunity to submit a response to the XRB climate-related financial disclosures consultation. In 2021, PMG Funds provided a submission on the initial proposal from the XRB asking for feedback on the proposed concept of reporting on climate-related financial disclosures.

In that submission we were supportive of more transparent reporting. In this submission our view has not changed, we remain supportive overall of transparent reporting. In this document we have endeavoured to provide constructive feedback on the challenges the proposed reporting methods present for the property sector, specifically the unlisted property funds sector, while also providing recommendations.

Background

PMG is a trusted unlisted property fund manager with 30 years history of investing in and managing commercial and industrial property across New Zealand. We are a responsible investment manager holding a MIS license under the FMCA 2013.

We have a growing footprint of over 45 commercial and industrial properties that are home to 185* tenants nationwide. We currently have $900M of assets under management on behalf of our retail and wholesale investors. It is likely that by 1 April 2023, PMG will have close to or over $1B of assets under management which would make us a Climate Reporting Entity (CRE) under the consultation terms.

As a successful, values-based, company we are committed to making a positive impact on our environment, our communities and the property and investment sectors of New Zealand. We are committed to building a sustainable future as demonstrated by our environmental, social and governance initiatives detailed in our inaugural Sustainability Report. This includes the work we do under the PMG Charitable Trust which is focused on delivering financial literacy education to young New Zealanders (www.pmgcharitabletrust.org.nz) to address financial inequality in New Zealand.

Our overarching view

We support the consultation process and are keen to provide our views and recommendations that we believe could help our industry to further contribute to achieving New Zealand’s ESG goals.

Our submission and key message

Having considerable skin in the game and with over 6 years of experience in our ESG journey we believe to be well positioned to provide to the XRB insight on the challenges and opportunities of climate-related financial disclosures for an unlisted property funds manager. We believe that our peers in the unlisted property funds sector would face the same, or very similar challenges about some of the questions in the current consultation document. It is our goal to lead the unlisted property funds sector in the reduction of waste, energy and water consumption, and carbon emissions as published in our first Sustainability Report. Therefore, we would welcome the opportunity to work more closely with the External Reporting Board on the development of this legislation, to ensure the standards can be realistically met and ensure primary users receive the most accurate and comparable information as possible. We would be happy to meet with the XRB after this submission to expand on our take on it and/or further work together towards making achievable the objectives of the CRD.

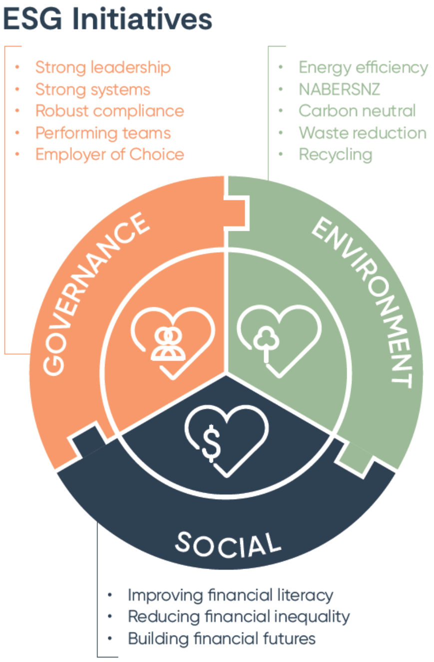
Overall, there are three areas of concern we believe will be challenging to implement in New Zealand by 2025 as per current requirements in the consultation:

- **Reporting scope 3 (value chain emissions) in full**
    - the XRB consultation implies reporting 100% of the scope 3 (full value chain), while the IFRS accepts for a flexible approach and allows the reporting entity to define which scope 3 emissions have been included in, or excluded from those reported
- **Requirement to obtain reasonable assurance for each one of our funds by 2025**
    - with no current industry standard and measurement methodology in place we fear assurance costs will virtually double while adding very little in terms of comparability for the primary user (existing and potential investors, lenders, and other creditors)
- **Timeframe and deliverables overall**
    - while New Zealand is aiming for carbon neutrality by 2050, reporting by 2025 at the level of detail required by the XRB feels overwhelming even with our experience. Main difficulties being the lack of industry standards and that upgrading all existing buildings across the industry by 2025 to meet CRD requirements is just unachievable

Our response includes a *recommendations* section where we provide our view regarding solutions to the above areas of concern while referring to the relevant XRB consultation question(s).

Sincerely,
Felix Andrade
Regulatory Affairs Manager of PMG

2. PMG's Journey and approach to sustainability



At PMG our approach to sustainability is about enhancing the influence we have on the environment and the communities in which we operate. Last year we completed PMG's first Sustainability Report which details our ESG initiatives to date and sets out our goals for the year ahead. As an unlisted entity, PMG is not required to report on sustainability yet, however, we know it is the right thing to do.

Some of our achievements to date, highlighted in the Report include:

- PMG's first NABERSNZ rated property at 8 Rockridge Avenue, Penrose, Auckland, received a 4-star NABERSNZ rating in October 2021
- PMG's Tauranga Head Office tenancy received a 4-star NABERSNZ rating in December 2021, joining only eight other tenancies in the country currently with a rating
- We have committed to achieving four NABERSNZ rated buildings within our portfolio by the end of March 2023
- Four PMG-owned buildings now have building management systems in place for monitoring energy, water and waste, and we plan to increase that to eight buildings by the end of March 2023
- PMG began recording waste and recycling efforts in pilot buildings in July 2019. 24 months later, 63.18 tonnes of waste have been recycled

To address financial inequality, PMG's Charitable Trust partnership delivered financial literacy lessons to 11,000 Year 10 students in 2021. In 2022, PMG intends to double that to reach 22,000 students PMG is working with Toitu Envirocare on a programme to measure and reduce our carbon footprint as a management business. Our goal is to gain Carbon Zero certification this financial year. Currently there is no agreed property industry methodology to measure carbon emissions from buildings, and therefore no carbon certification available. Given this, and as the proposed CRD requirements stand, there will be a high degree of disparity in the way property CREs calculate carbon emissions from buildings. Therefore, the primary user will not be receiving comparable information, which is one of the main goals of the reporting legislation.

Property sector context: Carbon emissions and the built environment

With the built environment of the property sector making up 20 per cent of New Zealand's overall carbon emissions, reducing the emissions from existing buildings is key if New Zealand is to meet's its 2050 Carbon Zero targets. However, most of this country's buildings are not new, they are B grade or lower.

Working to implement technology and measures to reduce carbon emissions from these buildings is significantly more challenging and costly, compared to new builds. This is due to existing building infrastructure, and a lack of sophistication in the technology and building services already incorporated into these buildings.

However, in improving carbon emissions from these older/B grade and lower buildings, will help NZ get closer to its 2050 targets, than those entities owning, buying, and building new buildings.

Currently, as they stand the proposed standards would penalise those property funds managers who are trying to do the right thing (the harder task of reducing emissions from post-2007 buildings) than other CREs. In our view these entities should be supported to reduce emissions and help get New Zealand closer to its carbon zero targets.

PMG feels strongly that the CRD needs to take an industry-by-industry approach to the reporting, given other industries will also have unique and impeding circumstances.

3. Recommendations

<table>
<tr><th>Reporting scope 3 (value chain emissions) in full</th><th rowspan="2">Our recommendation</th></tr>
<tr><th>XRB Related Question(s)</th></tr>
<tr><td>Question 5 - Do you have any views on the defined terms as they are currently proposed?

Question 9 - We will require disclosure of scope 3 value chain emissions as part of this standard. Are there areas (particularly in your scope 3 value chain) where there are impediments to measuring at present? If so, what are these areas and when do you think it might be possible to measure these areas?</td><td rowspan="3">Provide baseline reporting templates by industry equivalent to what the finance industry know as “five financial statements”
Provide specific industry guidance
Provide clarity about the “climate-related scenario” definition
Provide guidance for businesses that operate in more than one industry for scope 3 purposes
clarification about how cross-industry metrics would work for businesses operating in more than one industry</td></tr>
<tr><td>Our observation</td></tr>
<tr><td>XRB consultation section 7.6.5 GHG emission disclosures and particularly scope 3 value chain emissions make emphasis on the full value chain categories to be reported to be all of them (13). We agree with the XRB that this is where the most significant emissions risks and opportunities lie, but also where the most challenges exist to accurately measure them in the first place.

For a business with a single focus of operations (i.e., a Bank, Insurer, etc.) scope 3 might be workable despite the inherent known challenges. However, in practice at PMG we have 3 areas of operations (Asset Management, Real Estate Services and Real Estate [as per IFRS Sustainability Exposure Draft Appendix B industry categories published on March 2022 by the ISSB[1]]). This effectively means that measuring our scope 3 in full emissions might require at least three industry standards.

The XRB consultation on section 7.6.1 marginally mentions duplication and cross-industry metrics with another marginal mention on section 7.6.6 but neither addresses the case of a single company that performs on multiple industries. We need more clarity about how we can achieve XRB requirements without triplicating our work-costs-assurance required to issue CRD.

Even if we were to consolidate information and produce scenarios to complement our disclosures XRB definition of “climate-related scenario” is counterintuitive. We require further clarification as what a scenario is for the XRB as an “scenario” normally include a degree of probabilistic or predictive factors – yet, probabilistic or predictive factors are explicitly excluded from the definition of a climate-related scenario by the XRB. In contrast the IFRS Appendix A – definition of a “climate-related scenario analysis” does not have such restriction.</td></tr>
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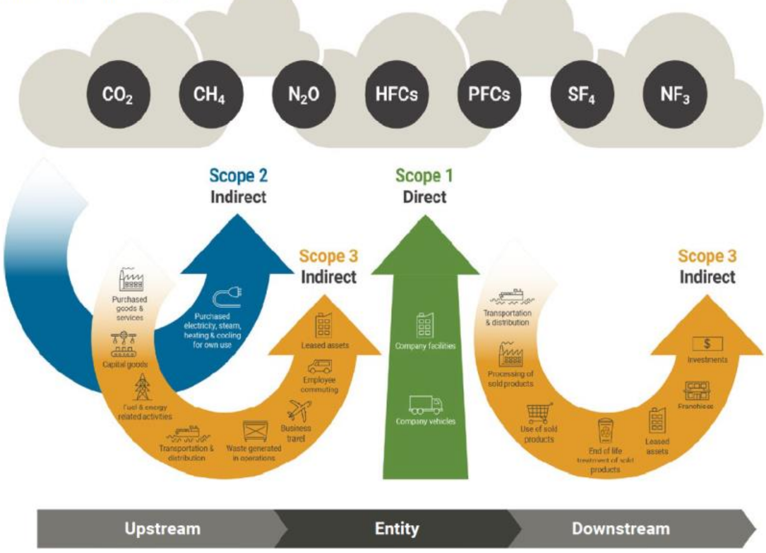
Figure 6: Emissions scopes



[1] International Sustainability Standards Board

Requirement to obtain reasonable assurance for each one of our funds by 2025	Our Recommendation
XRB Question(s)	
Question 1A - Do you think the proposed Strategy section of NZCS 1 meets primary user needs? **Question 11** - Do you have any views on the defined terms as they are currently proposed? **Question 13** - The XRB proposes that the minimum level of assurance for GHG emissions be set at limited assurance. Do you agree?	• Include “degree of comparability” as part of the definition of “reasonable assurance” • Allow CRD consolidation per company rather than fund
Our observation	
We agree that limited assurance is a good starting point. However, without the assurance standards that deal with the independence and overall responsibilities of assurance practitioners when conducting the assurance engagement, we can only speculate it will be very similar to the ones when providing reasonable assurance for regular financial statements. We are disappointed that the requirement for assurance over GHG emissions disclosures is already set in legislation under section 461ZH of the Financial Markets Conduct Act under assent from 27 October 2021. The XRB role in this case seems to be issuing the practitioner’s standards when conducting “reasonable assurance” over GHG emissions as stated on section 8.2 of XRB consultation. In this case our view is for the XRB should expand the definition of “reasonable assurance” to include “degree of comparability”. History and good practice show that when looking at a set of financial statements these must not be read on isolation. The notes to the financial statements are critical. To make an informed decision the primary user of information should be able to trust that when stated GHG emissions have “reasonable assurance” should mean they are comparable with the same industry disclosures. Finally, we understand from the legislation and consultation document that we can combine on a single document all of our funds CRD for an accounting period. Even so, separately or combined we fear that providing assurance over multiple funds will multiply that many times the costs of producing disclosures. Fundamentally the governance and controls from one fund to the next are the same. We do not see the value of assuring each fund individually beyond increasing our costs of operation. Take for example the financial statements of a multinational, these can be consolidated and reported as a group. We do not see why this should be any different for multiple funds.	

Timeframe and deliverables overall	Recommendation
XRB Question(s)	
Question 3 - Do you agree that we should not prescribe which global mean temperature increase scenario(s) should be used to explore higher physical risk scenarios (such as 2.7°C and/or 3.3°C or by using Representative Concentration Pathways (RCP) such as RCP 4.5 or 6), but rather leave this more open by requiring a ‘greater than 2°C scenario’? Why or why not? **Question 4** - We do not require transition plans to be tied to any particular target such as net zero and/or 1.5°C, but that entities will be free to disclose this if they have done so. Do you agree? Why or why not?	• Clarify expectations regarding targets about global mean temperature if implemented, for example: ○ Provide clear paths for entities that have no way of influencing or influencing on a limited way scope 3 emissions • Global mean temperature and transition plans should not be hard coded to a target but be principle and market driven • XRB should engage actively with industry organisations as well with Climate Reporting Entities (CREs). Not just CREs. More often than not, industry
Our observation	
We appreciate less prescribed / mandatory requirements and more principle-based ones. For the global mean temperature increase scenario(s) we believe leaving it open by just requiring a “greater than 2°C” is enough. This should allow enough flexibility for a CRE to report the scenarios that are relevant to the industry and/or primary user.	

Similarly, regarding transition plans, "net zero and/or 1.5°C" due to the lack of agreed industry standards tying transition plans to targets would not be in the best interest of the primary user of information as the targets/plans from one industry to another could vary significantly what kind of transition is required to begin with. Furthermore, for our primary industry (Asset Management, Real Estate and Real Estate Services) as briefly mentioned above there is no methodology for assessing the embodied carbon in buildings. For example, MBIE released a whole-of-life carbon assessment guidance for new buildings. In our case this assessment guidance leaves out 90%+ of the buildings in our funds. We are also aware of the Property Council New Zealand working on an Emissions Reduction Plan which among others aims to set outcomes and date/s for managing the phase out of fossil gas in the energy system by 2050 for all buildings. In our case we have about 185* tenants and some of them use multiple sources of energy for their operations that might include industrial operations. There is only so much we can do to measure their emissions even when using our buildings let alone to have them to switch to other greener energies to achieve any targets that the XRB or Government might come up. The Property Council of New Zealand already sent a submission about "Shaping the Emissions Reduction Plan where is very clear that business will shoulder the brunt of the extra costs, levies, and charges. And particularly the difficulty for existing buildings to measure / improve their emissions. In summary we believe that the intent of the XRB consultation is in the right direction but due to its large scope and complexity in practice even for experienced companies reporting on sustainability there is a high risk of not being able to meet the disclosure requirements as they are drafted on this consultation without a more comprehensive staged approach.	organisations can provide additional perspectives about the challenges on each industry to achieve the Government and XRB purposes of this consultation. • Provide more options for a staged approach to achieve the levels of disclosure desired by the XRB for 2025 to 2050

4. Appendix 1

Consultation quick summary

Strategy Disclosure objective	Metrics and Targets Disclosure objective
To enable primary users to understand the short-, medium- and long-term impacts of climate-related risks and opportunities of an entity's: • business model, • strategy, and • financial planning	To enable primary users to understand how an entity measures and manages climate-related risks and opportunities regarding: • evaluations of the entity's potential risk-adjusted returns, • ability to meet financial obligations, • general exposure to climate-related risks and opportunities, and • progress in managing or adapting to those risks and opportunities
Strategy Disclosure requirements	**Metrics and Targets Disclosure requirements**
• Description of the short-, medium- and long-term climate-related risks and opportunities • Description of the impact of climate-related risks and opportunities on PMG's business model, strategy, and financial planning • Description of the resilience of PMG business model and strategy • Methodologies and assumptions underlying the climate-related scenarios	• Metrics used to measure and manage climate-related risks and opportunities • Targets used to manage climate-related risks and opportunities • Methodologies and assumptions used to calculate metrics and targets