PUBLISH WHAT YOU PAY AUSTRALIA

TRANSPARENCY INTERNATIONAL AUSTRALIA

Climate Disclosure Unit
Market Conduct Division
The Treasury
Langton Crescent
PARKES ACT 2600
climatereportingconsultation@treasury.gov.au

17 February 2023

Dear Madam/Sir

We thank you for the opportunity to make a submission to the Government's consultation on climate-related financial disclosure.

Publish What You Pay (PWYP) Australia is a civil society coalition of anti-corruption, human rights, faith-based, environment and union organisations campaigning for greater transparency and accountability in the oil gas and mining sectors.[1] We work with the global PWYP coalition, a network of over 1,000 organisations in more than 51 countries around the world, united in our call for an open and accountable extractive industries sector, so that communities share in the benefits of our natural resources.

Transparency International Australia (TI Australia) is the national chapter of Transparency International, the global coalition against corruption. Established in 1995, TI Australia engages with civil society partners, business and government to strengthen the integrity and accountability of institutions, and expose and prevent corruption. We are also the lead for TI's global mining program which promotes accountable mining and works with our chapters in more than 20 countries around the world.

Everyone benefits from transparency including markets who can then make better decisions. We therefore strongly support the Governments' intention to implement a climate-related financial disclosure scheme for Australia.

Our submission is partly focussed on the need for comparable, consistent, reliable and standardised disclosures of climate-related financial risks by the fossil fuel sector. The design and implementation of standardised, internationally-aligned requirements for disclosure of climate-related financial risks in Australia must adequately cover the fossil fuel sector due to the fundamental relationship between fossil fuel extraction and climate change mitigation.

[1] For more nformat on on the 30 organ sat ons that make up the PWYP Austra a coa t on go to: www.pwyp.org.au

There can be no new coal, oil or gas projects if the global energy sector is to reach net zero emissions by 2050 and help avoid catastrophic climate change the International Energy Agency (IEA) has said.[2] Yet the fossil fuel sector has for decades undermined the scientific consensus on climate change and prevented meaningful action to reduce emissions. Because the disclosure of climate information by the coal, oil and gas sectors is voluntary, inconsistent and incomplete, citizens, investors and civil society have no way to judge whether or how fossil fuel companies are moving to a low-carbon future and the climate and financial impacts of company action or inaction. As the Investor Group on Climate Change as said, voluntary approaches are insufficient and only mandatory regimes provide companies with a clear set of expectations for reporting and levels the playing field.[3]

Climate change also presents profound, systemic and diverse risks to global capital markets – as BlackRock's CEO Larry Fink has said, "There is no company whose business model won't be profoundly affected by the transition to a net zero economy."[4] Companies whose business models will be among the most affected are of course coal, oil and gas companies. By one estimate, the financial loss from stranded fossil fuel assets could lead to a discounted global wealth loss of between $1-4 trillion, a loss comparable to the 2007 financial crisis.[5] The absence of adequate information on climate risk is contributing to systemic financial stability risks including overvaluation of emissions-intensive activities, under-pricing of climate risk and mispricing of assets.[6]

We enclose the following submission for your consideration and look forward to discussing these issues in more detail over the coming months.

Yours sincerely,

[redacted]
Chief Executive Officer (CEO)
Transparency International Australia
[redacted]

[redacted]
Advocacy Coordinator
Publish What You Pay Australia
[redacted]

[2] Internat ona Energy Agency (2021), Net Zero by 2050: A roadmap for the g oba energy sector, https://www. ea.org/reports/net-zero-by-2050
[3] Investor Group on C mate Change (2021), Confus on to c ar ty: A p an for mandatory TCFD-a gned d sc osure n Austra a, https:// gcc.org.au/wp-content/up oads/2021/06/Confus ontoC ar ty_AP anforMandatoryTCFDa_gnedD sc osure nAus.pdf
[4] Pub sh What You Pay US (2121, Subm ss on to SEC c mate change d sc osure consu tat on, https://www.sec.gov/comments/c_mate-d sc osure/c_12-8914437-244711.pdf
[5] Mercure et a ., *Macroeconomic impact of stranded fossil fuel assets*, Nature C m. Change 8, 588–593, pg.1 (2018), https://core.ac.uk/down oad/pdf/162913713.pdf
[6] Investor Group on C mate Change (2021) , Confus on to c ar ty: A p an for mandatory TCFD-a gned d sc osure n Austra a, https:// gcc.org.au/wp-content/up oads/2021/06/Confus ontoC ar ty_AP anforMandatoryTCFDa_gnedD sc osure nAus.pdf

Climate-related financial disclosure consultation

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)? In particular:

1.1 What are the costs and benefits of meeting existing climate reporting expectations?

1.2 What are the costs and benefits of Australia not aligning with international practice and in particular global baseline standards for climate reporting?

PWYP Australia and TI Australia support the implementation of mandatory climate-related financial disclosure for Australian companies. The benefits of this are enormous.

Requiring Australian companies – including companies that are high risk and highly emission intensive, such as fossil fuel companies – to disclose information about their climate-related financial risks (and associated metrics), will help investors understand the risks and opportunities associated with their investments in order to make informed decisions about how to allocate capital. Likewise, information relating to climate-related risk governance and management processes, a company's greenhouse gas emission profile, and financial resilience are essential for investors to be more fully able to assess risks and the broader stability of financial markets.

Climate disclosures will be immensely beneficial to investors in understanding the many risks involved in investing in a high carbon emitting companies and industries. Climate disclosures are also of great interest to other stakeholder groups, including civil society.

We support the intention of Australia aligning with international practice on mandatory climate-related financial disclosures. This will help ensure there is globally consistent, comparable and reliable reporting system that provides stakeholders with a clear and accurate picture of a company's risk, including climate-related physical and transition risks.

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

2.1 What considerations should apply to determining the cohorts covered in subsequent phases of mandatory disclosure, and the timing of future phases?

There may be merit in adapting a phased approach to climate disclosure, with larger entities being required to report first. However, a size threshold for initial reporting should not be applied uniformly across industries as some industries – such as coal, oil and gas – have a disproportionate impact on global warming because of their emissions profile. Subsequently, climate-related risk information is most clearly and unquestionably material for this sector as the world transitions away from fossil fuel use.[7]

The transition risks and physical risks associated with climate change will impact the operating costs and asset valuation of fossil fuel companies, more so than companies from many other sectors. These companies are generally capital intensive, require major financial investments in fixed assets and supply chain management, and have longer business strategy/capital allocation planning horizons; horizons that may be particularly affected by climate-related risks and opportunities.

[7] In 2021, a new consensus emerged among the argest and most prom nent ndustry forecasters, nc ud ng the Internat ona Energy Agency (IEA), Rystad Energy, and Wood Mackenz e, that 2050 demand for o and gas w fa be ow current eve s of about 100 m on barre s per day. See for examp e, Internat ona Energy Agency (2021), *Net Zero by 2050: A Roadmap for the Global Energy Sector.* https://www. ea.org/reports/net-zero-by-2050;

Applying a phased approach for the fossil fuel sector is not appropriate for a number of reasons, including that:

I. As fossil fuel demands falls, so too is the value of fossil fuel companies.[8]
II. Fossil fuel company valuations are heavily based on the viability of future reserves yet very few companies are currently factoring in the risks of decreased demand in the next 30 years and the potential impacts that market shifts could have on the economic viability of different projects.
III. Little to no climate transition risk is currently priced into the oil and gas sector today representing significant risks to their investors and other market participants.[9]
IV. Oil and gas companies' valuations obscure material transition risks to investors because their valuations are underpinned by industry's plans for continued growth; this planned growth carries immense financial risks associated with stranded assets.

Research by PWYP Australia has found there are over 100 ASX-listed companies that are currently operating fossil fuel projects or seeking to develop new projects. These projects – almost 400 of them – span the globe. Many of these companies are small. Limiting disclosure obligations to entities in the coal, oil and gas sector above a certain threshold (whether by market capitalisation, turnover or number of employees) would exclude a large number of entities. For example, limiting disclosure to entities with a market capitalisation above AUD 100 million would exclude approximately 70% of ASX listed energy companies from having to disclose.[10] This resultant information gap – even if temporary – is unacceptable.

Question 3: To which entities should mandatory climate disclosures apply initially?

3.1 What size thresholds would be appropriate to determine a large, listed entity and a large financial institution, respectively?

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?

We note that the consultation paper states that mandatory climate-related financial risk disclosure requirements would also apply to financial institutions, which we support. We also encourage the Government to apply disclosure requirements to public financiers, including to Australia's export credit agency, Export Finance Australia.

Export Finance Australia has provided significant financial support to fossil fuel projects. Between July 2009 and June 2020, Export Finance Australia provided up to $1.69 billion in financing for fossil fuels (including refinancing).[11] The risks associated with this needs to be better understand by Australian taxpayers, the relevant Minister and the Australian parliament. Placing climate-related financial risk disclosure requirements on Export Finance Australia would provide much needed transparency and accountability. It would also send an important message to Australia's international partners about the seriousness with which we are addressing related climate-related risks and financial system resilience.

---

[8] Wa Street Journa (27 December 2020), 2020 was one of the worst-ever years for o wr te-downs, https://www.wsj.com/art c es/2020-was-one-of-the-worst-ever-years-for-o -wr te-downs-11609077600.
[9] A exander Schay and Pau Buga a (2022), *A Demanding Change: Oil & Gas in 2050*, pp. 24-29, https://www.sec.gov/comments/s7-10-22/s71022-20129438-295567.pdf
[10] Based on the number of energy compan es and the r market cap ta sat ons sted here: https://www. stcorp.com/asx/sectors/energy/energy
[11] Jub ee Austra a (2021), Hot money: Austra an taxpayers f nanc ng foss fue s, https://www. ub eeaustra a.org/resources/pub cat ons/hot-money-2021

In the fossil fuel sector the transfer of assets from transparent, publicly listed companies with (sometimes) stronger climate commitments to more opaque private companies with weaker standards is increasingly common. Research by the Environmental Defense Fund found that upstream oil and gas assets are flowing from public to private markets at a significant rate; over the last five years, the number of public-to-private transfers exceeded the number of private-to-public transfers by 64%.[12] Unless disclosure standards apply equally to both sets of companies, there is a risk that overall standards may decline, despite increased disclosure standards on publicly listed companies.

We therefore strongly encourage the Government to also apply disclosure requirements to private companies, especially those in the coal, oil and gas sector. We believe this would level the playing field, give regulators the greatest scope to manage systemic risk, and avoid creating adverse competition impacts between entities not covered. We also note that reporting of climate data by private companies is currently very limited. This poses challenges for financial institutions and other public companies who may need to rely on those private companies' data to calculate their own scope 3 emissions.

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

4.1 Are there particular considerations that should apply in the Australian context regarding the ISSB implementation of disclosures relating to: governance, strategy, risk management and/or metrics and targets?

4.2 Are the climate disclosure standards being issued by the ISSB the most appropriate for entities in Australia, or should alternative standards be considered?

We support aligning climate reporting requirements with the global baseline envisaged by the International Sustainability Standards Board. We consider the climate disclosure standards, *IFRS S2 Climate-related Disclosures*, being issued by the ISSB to be the most appropriate for entities in Australia. Aligning with the ISSB standards will help ensure the disclosure of comparable, consistent, reliable and standardised data by Australian entities.

We note that the development by the ISSB of IFRS S2 is well advanced and has involved extensive stakeholder consultation, which PWYP has participated in. We also note that the IFRS S2 includes industry-based disclosure requirements, including for extractives and minerals processing (with specific disclosure requirements for segments of this industry, including coal, and oil and gas).

We support the inclusion of industry specific standards in both IFRS S2 and Australia's climate-related financial disclosure reforms to ensure that industry-specific climate risks are better disclosed to markets and other stakeholders. As noted elsewhere in this submission, fossil fuel companies face unprecedented transition risk as governments start to regulate emissions in line with the Paris agreement, and alternative energy falls in price. Yet little to no climate transition risk is priced into oil and gas sector valuations;[13] hence the importance of the ISSB's extractives and minerals processing disclosure requirements.

PWYP has provided detailed input to the ISSB's consultation, including on additional industry-based information needed to assess financial risks in the oil and gas sector. The information we think is necessary in additional to that already contained in the draft IFRS S2

[12] Env ronmenta Defense Fund, Transferred Em ss ons: How R sks n O and Gas M&A Cou d Hamper the Energy Trans t on, https://bus ness.edf.org/ ns ghts/transferred-em ss ons-r sks- n-o -gas-ma-cou d-hamper-the-energy-trans t on/

[13] A exander Schay and Pau Buga a (2022), *A Demanding Change: Oil & Gas in 2050*, pp. 24-29, https://www.sec.gov/comments/s7-10-22/s71022-20129438-295567.pdf

is summarised in the box below. We have included this information here to indicate what we think is necessary for complete and reliable disclosure of climate-related financial risk by the fossil fuel sector. We hope the that the finalised IFRS S2 reflects this.

Additional information needed to reliably assess value and the impacts of climate-related risks in the oil and gas sector.

1: Critical financial estimates and assumptions
Oil and gas companies should be required to publish the following estimates and assumptions that drive asset valuations:
- Commodity prices, discount rates, capital and operational expenditures, and estimates about the remaining useful lives of assets used for impairment testing.
- Discount rates, estimates about the remaining useful lives of assets and the undiscounted estimated costs used to calculate asset retirement obligations.

2: Sensitivity analyses
Oil and gas companies should be required to analyse the sensitivity of reserves using the Net Zero Emissions by 2050 Scenario in addition to other scenarios published by the International Energy Agency in its World Energy Outlook publication

3: Project breakeven prices
Oil and gas companies should be required to publish break-even prices for major exploration and production projects.

4: Project-level GHG emissions
For Scope 1, 2 and 3 emissions disclosures, oil and gas companies should be required to provide geolocation data and the specific name of the project that is the source of emissions.

5: Project-level, forward-looking emissions-embedded-in-reserves
Oil and gas companies should be required to disclose emissions embedded in reserves.

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)?

We do not a have a view on what is the optimum regulatory framework for the new climate disclosure regime. We do though emphasise that disclosure must be mandatory, and that for this to occur the regulatory framework must be enforceable. Government should therefore consider the issue of enforceability in the design of the regulatory framework.

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 and financial review, or in an alternative separate report included as part of the annual report?

Entities should be required to disclose climate-related financial risks and opportunities in their annual reports, preferably in a separate report included as part of (or section in) the annual report. Requiring climate disclosure in a separate report will help make the information more easily accessible and cohesive.

Question 7: What considerations 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)?

We support alignment with ISSB guidance on materiality.

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?

It is critically important that climate disclosures are subject to high levels of assurance, and that this is a mandatory aspect of the overarching regulatory framework. Without such assurance disclosures may not be reliable. We also note the importance of assurance to ensure a future climate disclosure scheme doesn't encourage 'greenwashing'. For example, we note that Shell Australia has been referred to corporate and advertising regulators for allegedly misleading or deceptive statements about the climate impacts of its products and operations,[14] and Santos is facing similar allegations in the Federal Court.[15]

Assurance provides should be subject to independence and quality management standards, because without this the whole disclosure system may not be seen as credible or reliable.

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?

We strongly support requirements for the disclosure of Scope 1, 2 and 3 emissions, in gross value and intensity. In particular for fossil fuel companies, the disclosure of a company's Scope 3 emissions is perhaps the most significant of emissions disclosures, as they provide information about potential transition risks to an entity's supply chain or revenue base. Yet because more than 80% of companies are not yet reporting Scope 3 the market cannot assess risks associated with the low-carbon transition.[16]

Emissions data allows investors to evaluate an entity's vulnerability to, for example, greenhouse gas related taxation, regulation, litigation and reputational damage and shareholder pressure, in addition to other aspects of transition risk. Many investors view a company's greenhouse emissions data – including Scope 3 – as significantly correlated with financial performance. Over time, as the transition to a low-carbon economy accelerates, investors seeking to evaluate competing low-carbon equity investment strategies will increasingly need comprehensive, reliable emissions data. Mandatory Scope 3 disclosures are crucial to meeting this investor need.

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

The ISSB draft climate standard includes a proposed appendix of industry-specific metrics, based on the Sustainability Accounting Standards Board's standards. We support the use of

[14] Env ronment Defenders Off ce (2022), She greenwash ng comp a nt odged w th ACCC and Ad Standards, https://www.edo.org.au/2022/11/04/she -greenwash ng-comp a nt- odged-w th-accc-and-ad-standards-austra a/
[15] Austra as an Centre for Corporate Respons b ty (2022), Austra as an Centre for Corporate Respons b ty expands andmark Federa Court case aga nst Santos, https://www.accr.org.au/news/austra as an-centre-for-corporate-respons b ty-expands- andmark-federa -court-case-aga nst-santos/
[16] Er ka Murphy (2021) *Has Climate Transition Risk Been Priced Into Equities?* We ngton Management, https://www.we ngton.com/en-gb/ ntermed ary/ ns ghts/green-equ t es-c mate-change-stocks-funds

common metrics as this will help ensure that disclosures are comparable and consistent. Industry specific metrics are particular important. In the case of the fossil fuel sector, where current disclosure by companies is either rare or inconsistent and incomplete, requiring disclose against defined metrics offers the best way to quickly improve the overall quality of disclosures.

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?

Disclosure of transition plans (and relevant metrics and targets) is essential for investors and other stakeholders to evaluate the seriousness of corporate statements of intention to identify and manage climate-related risks. Broadly, transition plans are critical for enabling investors to understand how a company is preparing for the energy transition to a less-carbon intensive economy. Companies whose business models rely on continued fossil fuel production or those who are ill-prepared for the ongoing energy transition have an incentive to conceal some transition risks from investors. Requiring companies to disclose their transition plans will provide greater protection for investors by allowing public scrutiny of companies' transition plans. Disclosures of companies' efforts to ensure a just transition must be included in companies' definition of transition risks

Companies should also disclose their use of offsets to manage risk and meet greenhouse gas emission reduction targets. While commonly used, offset mechanisms have attracted legitimate concerns about governance and effectiveness. Companies are also largely failing to disclose the extent to which they are relying on offsets to achieve their emissions reduction targets and the quality of any offsets on which they are relying. This failure to disclose means that material risks are being concealed from investors,[17] which underscores the need for investors to have access to detailed transition plans to fully understand how significantly companies plan to rely on offsets within their emissions reduction strategies.

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

The consultation paper notes that in some jurisdictions specific disclosures (such as Scope 3 emissions reporting in the US Securities and Exchange Commission's proposed cliamte risk disclosure rule) have a separately phased timeline from the broader requirements. This is not something we support. Phasing disclosure (and assurance) requirements may undermine the intent of the reforms proposed by not actually delivering improvements to the flow of information to investors and other stakeholders. If, for example, Scope 3 emission reporting was to be required later than other disclosures, then a large share of actual emissions – which for some industries, especially coal, oil and gas, are a significant share of their emissions – would not be reported.

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?

We believe there is merit in the production of information such as scenario analysis and guidance on calculating Scope 3 emissions from a central, authoritative public entity. Production of such information will assist in ensure the climate-related financial disclosures are comparable and reliable. The Climate Change Authority or Department of Climate

[17] Ben Cushing and others (2022), Letter to the SEC Re: Offsets Disclosures in Climate Risk Disclosure Rule. https://www.sec.gov/comments/climate-disclosure/cll12-20115318-267372.pdf

Change, Energy, the Environment and Water may be most appropriate, possibly in collaboration with ASIC.

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?

We do not support a safe harbour regime proposed by the US Securities and Exchange Commission. With regards to Scope 3 emissions for example, while we recognise there may be some questions about data availability, quality and accessibility for Scope 3, significant advances are underway and it will become significantly easier to calculate Scope 3 emissions disclosures in the near future. Safe harbour provisions risk reducing the reliability of the data and the benefits and utility of the disclosed information.

Instead, we support 'reasonable grounds' requirements and the disclosure of uncertainties or assumptions by entities in their climate disclosures.

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

We believe that digital reporting should be mandated. There are many benefits in doing so, including to better enable data analysis, comparison and risk assessment.