

Climate-related financial disclosure submission

Greenpeace Australia Pacific

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General comment

Greenpeace Australia Pacific welcomes the Federal Government's move to introduce a standardised, mandatory climate-related financial disclosure framework. Transparency is fundamental to ensuring a rapid, fair and safe transition away from fossil fuels towards a more sustainable economy.

Recommendations

- 1. Require project-level disclosure of emissions, including for Scope 1, 2 and 3 of both existing and proposed projects at both operation and equity level:** While some companies disclose their operational or equity emissions at a company-level, very few do at a project level. This includes both existing and proposed projects. While sometimes this data can be sourced from the Clean Energy Regulator, environmental impact statements or other regulatory reports, it is often very difficult to compile. It means investors do not have full transparency of the climate risk and exposure of particular projects. Companies should be required to provide a comprehensive table of their existing and planned Scope 1, 2 and 3 emissions broken down into projects. This requirement should apply irrespective of whether the emissions are considered material at the whole-of-enterprise level. Requiring that a risk be considered material at a whole-of-entity level in order for disclosure to apply, creates a giant loophole for climate polluters. Such a materiality threshold sets a double standard that allows large entities to avoid the disclosure of important data which is material to investors, project stakeholders and the broader community. The disclosure of scope 3 (upstream and downstream) emissions is essential in assessing an entity's climate transition risk and in assessing the risks in an entity's value chain, including the entity's financed emissions. Mandating the inclusion of scope 3 emissions data will align with the ISSB framework and the proposed frameworks in other key jurisdictions, including the US Securities and Exchange Commission's draft climate disclosure rules and the EU's draft European Sustainability Reporting Standards. This will allow for greater standardisation and comparability.
- 2. Require all companies of scale, not just publicly listed companies, to disclose climate risks and to do so using a double materiality standard:** The Federal Government's commitment to standardising climate related financial disclosure requirements should not be confined to large listed entities and financial institutions. The first phase of mandatory climate risk disclosures should apply to all listed entities, and all companies of scale irrespective of whether they are listed or operating in the financial services industry. This should include government-owned corporations. Climate change impacts which are captured in climate risk disclosures do not only impact investors, they also have profound, irreversible impacts on the broader community, including impacts on a wide variety of human rights, including the rights to life,

self-determination, development, food, health, housing, water and sanitation. Therefore public listing should not be a prerequisite for mandatory climate risk disclosure (as investors are not the only users of these reports). The broader community (not just investors) has a moral right to information which significantly impacts their lives like emissions data and climate risk information. This consideration should inform the design of the new regulatory framework. Greenpeace Australia Pacific supports the inclusion of 'double materiality', as adopted in the European Union last year so that in addition to disclosing material climate related impacts on an entity, the entity is required to disclose its material impacts on the climate.

- 3. Require full disclosure of the provenance and volume of carbon offsets and their claimed contribution to meeting climate targets:** While some companies selectively disclose the provenance and volume of some carbon offsets, there is currently no standard or requirement to do so. Given the growing prominence of carbon offsets in company climate strategies - and integrity risks around certain carbon offsets - it is critical for transparency and climate-risk assessment from investors to have a full understanding of the carbon offset practices of all companies.
- 4. Require full financial sensitivity modelling based on climate action trajectories:** Only a small proportion of companies provide a financial sensitivity analysis of Australia and the world acting faster on climate, including reaching the Paris Agreement temperature goal of 1.5 degrees. This means investors do not have a full financial understanding of how exposed or prepared the business is to changing market and policy settings. Given Australia's international commitment to pursuing efforts to limit the global average temperature increase to 1.5 degrees above pre-industrial levels,¹ disclosing entities should be required to undertake scenario modelling and disclose transition plans to align with this target. Transition plans should be aligned with the Science Based Target Initiatives Corporate Net Zero Standard and the findings of the United Nations High-Level Expert Working Group on Net Zero Emissions Commitments of Non State Entities.
- 5. Require mandatory climate risk disclosure based on the International Sustainability Standards Board IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 Climate-related Disclosures but including the proposed amendments outlined in this submission:** There is incredible value in mandating disclosure of the industry specific metrics found in the appendix to the ISSB draft climate standard. These metrics, which were based on the Sustainability Accounting Standards Board's standards, offer detailed prescriptive guidance tailored to the relevant industries which allows for much greater transparency and comparability amongst competitors.
- 6. Give limited weighting to the need for Integration and compatibility with existing Australian mandatory reporting frameworks in determining the new reporting framework:** Integration and compatibility with existing Australian mandatory reporting frameworks should be given limited weighting in determining the new framework given the extremely limited application of existing mandatory climate related disclosures and the ineffective nature of such disclosures. Only a very small number of companies are required to make disclosures under the *National*

¹ Glasgow Climate Pact, The Conference of the Parties serving as the Conference to the Paris Agreement, cl 29, unedited advance version: https://unfccc.int/sites/default/files/resource/cma3_auv_2_cover%20decision.pdf.

Greenhouse and Energy Reporting Act 2007 (Cth) (NGER Act). This reporting requirement only applies to companies with greenhouse gas emissions, energy consumption or production above the specified thresholds, and only requires that such companies report their GHG emissions, energy consumption and production data to the Federal Government. Approximately 96 per cent of ASX listed companies are not required to make mandatory disclosures under the NGER Act.² Most listed entities are currently not required to make detailed climate risk disclosures in accordance with an existing framework. They are merely required to disclose material risks, and may choose to follow the regulator's recommendation to utilise the TCFD framework to help them fulfil this obligation. As a result, listed entities often approach climate disclosure as a public relations exercise, cherry picking which parts of the TCFD (or other) framework to apply and remaining silent on material risks while advertising that their disclosures are 'aligned' to the relevant framework. This has resulted in disclosures which are inconsistent, incomplete, incomparable and unverifiable.

- 7. Failure to disclose accurate and timely information should attract significant financial penalties:** It is not appropriate to offer additional safe harbours or to limit liability for entities or directors who make inaccurate climate risk disclosures in relation to scope 3 or other emissions. The current protections, including the 'reasonable grounds' test in relation to forward looking statements and the business judgement rule in relation to director's duties, suffice. The introduction of new liability safeguards will disincentive robust reporting in accordance with the new framework. The framework should be backed by suitable enforcement mechanisms to incentivise compliance. This should include the extension of the 'two strike' rule for listed entity executive remuneration reports to cover climate-related disclosures. This is an important accountability mechanism that will provide investors with recourse against recalcitrant directors who show a pattern of mismanaging climate related risks. The new framework should emphasise the legal requirement for listed entities to notify the stock exchange in accordance with their continuous disclosure obligations when their reported climate targets are no longer achievable or they no longer have a reasonable basis for the material assumptions, methodologies or level of certainty communicated in relation to prior climate risk disclosures.
- 8. Require robust external independent assurance for climate risk disclosures:** This will help circumvent the current patterns of significant underreporting in many sectors. Greenpeace Australia Pacific opposes the phasing in of assurance requirements.

About Greenpeace

Greenpeace is a global environmental network dedicated to the mission of securing a world capable of nurturing life in all of its magnificent diversity. We are fully independent, accepting no funding from any government, business or political party anywhere in the world. Greenpeace Australia Pacific is an autonomous entity headquartered in Sydney with more than 1.2 million people participating in our network.

² Zahra Borghei, Philomena Leung and James Guthrie, 'The nature of voluntary greenhouse gas disclosure – an explanation of the changing rationale: Australian evidence' (2016) 24(1) *Meditari Accountancy Research* 111, 119.