Institute for Energy Economics
and Financial Analysis
ieefa.org

[redacted]

21 July 2023

Climate Disclosure Unit
Market Conduct and Digital Division
The Treasury
Langton Crescent
PARKES ACT 2600

Climate-related financial disclosure: Consultation paper

The Institute for Energy Economics and Financial Analysis (IEEFA) is an independent energy finance global think tank that examines issues related to energy markets, trends, and policies. Headquartered in the United States, our research covers markets globally with particular focus on Asia Pacific, Europe and the Americas.

IEEFA supports establishing climate-related financial disclosures for the Australian market that are globally consistent, comparable and high-quality, and that are fully aligned with standards approved by the International Sustainability Standards Board (ISSB).

Our responses to selected proposals in the consultation paper are outlined below.

We welcome the opportunity to discuss further issues and participate in setting future standards. If you have questions about the views raised in this letter, please contact us at [redacted].

Sincerely,

[redacted]
Debt Markets Research and Stakeholder Engagement Leader

[redacted]
IEEFA Australia CEO

Reporting entities and phasing

Overall, IEEFA agrees that all entities as proposed should be required to make climate-related financial disclosures and that a phased implementation approach is inevitable. However, it is imperative that all heavy emitters as well as listed and non-listed entities that are facing the most systemically significant climate-related risks be prioritised in Group 1 of the proposed roadmap for mandatory disclosure requirements.

Reporting content

In supporting the goal of a globally consistent, comparable and high-quality climate-related financial disclosures, it is necessary to ensure that the Australian climate-related financial reporting disclosures are fully aligned with the ISSB standards. That is, the Australian standards should adopt the ISSB requirements word-for-word, without amendments. As the ISSB standards are intended to be global baseline standards, adding Australian-specific requirements would be acceptable.

Transition plans and climate-related targets

IEEFA supports the ISSB requirements around transition plans and climate-related targets. IEEFA is pleased to see the Treasury's proposals to require all reporting entities to provide these disclosures.

IEEFA also notes that Treasury is aware that investors are increasingly aligning their portfolios to entities with transition plans that are benchmarked against the 1.5C scenarios,[1] and that they are reducing or exiting holdings in the entities most misaligned with the energy transition.[2,3] Treasury is best positioned to specify that transition plans disclosed should be aligned with credible or independently verified 1.5C decarbonisation pathways, but IEEFA notes the concerns around the burden or risks of specifying the alignment. In the absence of a credible/independently verified 1.5C pathway, a statement describing whether the transition plans are subject to any other standards/pathways (including what those standards are) and independently verified (including details of verifier) would be a good alternative. This would strengthen Australia's standing globally and assist investors to make meaningful and informed assessments as to whether the reporting entity's transition plan is aligned with the Paris Agreement.

In Paragraph 34 of the ISSB Climate standard, the ISSB calls for transparency regarding the setting and reviewing of climate-related targets. Paragraph 35 of the ISSB Climate

[1] Investor Group on Climate Change. Corporate Climate Transition Plans: A guide to investor expectations. March 2022.

[2] IEEFA. 200 and Counting: Global Financial Institutions Are Exiting Coal. May 2023.

[3] Global Fossil Fuel Divestment Commitments Database.

standard likewise calls for ongoing analysis of "trends or changes in the entity's performance" towards its stated commitments. Both factors are undoubtedly material for investors, given the private sector's mixed records in aligning pledges with credible science-based targets to date.[4,5] Accordingly, paragraphs 34 and 35 of the ISSB Climate standard are important and should be adopted in the Australian framework, as they provide important tools for evaluating the credibility of a reporting entity's stated targets.

Regarding offsets, one of the key factors differentiating impactful carbon emissions targets from greenwashed emissions targets is the use of carbon offsets instead of actual value-chain decarbonisation. Not all offsets are created equal; indeed, some may actually increase net global emissions in practice.[6] Moreover, heavy reliance on offsets allows a reporting entity to claim progress toward climate neutrality even while pursuing a business model substantively misaligned with science-based targets.[7] For these reasons, the Voluntary Carbon Markets Integrity Initiative has urged companies to use offsets only for climate mitigation, and to avoid such instruments in calculating corporate emissions for the time being.[8] Treasury should consider similar instructions for the Australian reporting framework.

Ultimately, the quality of a company's emissions reduction plan is important for evaluating its exposure to climate-induced risk. IEEFA notes this is also recognised by the ISSB Climate standard; in particular, paragraph 36(e)(iv) requires disclosure of "any other factors necessary for users of general purpose financial reports to understand the credibility and integrity of the carbon credits the entity plans to use (for example, assumptions regarding the permanence of the carbon offset)". Given the present immaturity of the carbon credit market — and the interest that investors have in evaluating a reporting entity's emissions reduction plan – this language is important for adoption in the Australian framework.

Metrics & Targets: Greenhouse Gas Emissions

IEEFA supports the proposals to require that reporting entities disclose Scopes 1, 2 and 3 emissions, including the one-year relief from reporting Scope 3, which would be consistent with the ISSB Climate standard. Investors have commented that this information is useful in assessing a reporting entity's exposure to climate-related risks and opportunities, and

[4] Net Zero Tracker. Net Zero Stocktake 2023. June 2023.
[5] Carbon Disclosure Project (CDP). Research reveals no oil and gas companies have plans in place to phase out fossil fuels. June 2023.
[6] Bloomberg. Inside the Billion-Dollar Market for Junk Carbon Offsets. November 2022.
[7] Trencher, G., Blondeel, M. & Asuka, J. Do all roads lead to Paris?. June 2023.
[8] The Guardian. Drop carbon offsetting-based environmental claims, companies urged. July 2023.

provides a complete emissions picture – this would prevent the mere outsourcing of emissions to other parts of the value chain that are outside the entity's control.

Regarding the challenges of measuring Scope 3 emissions, IEEFA considers that the adoption of widespread reporting on the data likely leads to innovative ways of addressing the problem. Therefore, IEEFA agrees with Treasury that requiring Scope 3 disclosure is likely to improve the quality of reporting.