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21 July 2023

Mr James Kelly  
First Assistant Secretary  
Climate Disclosure Unit  
Market Conduct and Digital Division  
Treasury  
Langton Cres  
Parkes ACT 2600

**RE: Climate-related financial disclosure consultation paper**

Dear Mr Kelly

Further to our submission dated 16 February 2023, INPEX welcomes the opportunity to provide feedback on the proposed positions for the detail, implementation and sequencing of standardised, internationally-aligned requirements for the disclosure of climate-related financial risks and opportunities in Australia.

**INPEX corporate context**

INPEX recognises the global challenge of climate change and supports Australia's updated commitments and intentions made in June 2022 under the Paris Agreement.

In January 2021, INPEX released its "Business Development Strategy", which updated INPEX CORPORATION's climate change response goals to move towards a net zero carbon society. INPEX committed to net zero carbon emissions in its operations by 2050, with an interim target of 30 per cent reduction in scope one and two net carbon intensity over 2019 levels by 2030. In February 2022, INPEX released the "INPEX Vision@2022", which outlines how these ambitious targets will be achieved.

INPEX supports the transparent reporting of climate-related financial risk. INPEX CORPORATION, through its Sustainability Report, has provided disclosures in line with Task Force on Climate-Related Financial Disclosures (TCFD) recommendations for the totality of INPEX CORPORATION since 2022.

INPEX CORPORATION is currently considering further strengthening its reporting of climate-related financial risk in line with the IFRS S2 standard.

INPEX has been involved in the Australian business community for more than thirty five years. In Australia, INPEX operates and is the majority shareholder in Ichthys LNG. Ichthys LNG represents the largest-ever overseas investment by a Japanese company and is one of INPEX's core projects globally. As such, Ichthys LNG's resilience to climate risk is highly influential in the overall resilience of INPEX CORPORATION.

Ichthys LNG features prominently in INPEX CORPORATION's TCFD aligned reporting.

INPEX CORPORATION is listed on the Tokyo Stock Exchange. No INPEX entities are listed on the Australian Stock Exchange. INPEX has eight Australian-based entities and two branches of Japanese companies in Australia. The majority of these entities are directly related to Ichthys LNG, with some additional entities existing in relation to our non-operated joint ventures partnerships in Australia (Attachment A).

INPEX entities in Australia currently provide financial reports under Chapter 2M of the *Corporations Act 2001 (Cth)* (Corporations Act). A majority of these entities exist in relation to a single facility the operating entity for which provides reporting with regards to its greenhouse gas emissions and energy consumption in line with obligations under the *National Greenhouse and Energy Reporting Act 2007 (Cth)* (NGER Act).

We would like to offer the following comments in response to the climate-related financial disclosure consultation paper dated June 2023 (the Paper):

- Policy settings proposed in this round of consultation represent a significant change in direction since the first round of consultation.
- The proposed timeframe for implementation is highly compressed, and risks producing legislation and standards without due consideration of the impact of proposed requirements or the value delivered.
- Fundamental aspects in relation to the reporting of unlisted entities, such as optionality for reporting by multi-national parent entity, geographical boundary of reporting and optionality for consolidated reporting for related entities have not been considered within the consultation paper. These aspects remain unclear, and are ultimately critical for effective and efficient design.
- For unlisted entities, information for investors that is useful for decision-making is best provided at a parent-entity level, particularly if the parent-entity provides reporting in line with a standard consistent with the proposed Australian standard.
- Prescriptiveness will not necessarily deliver consistency or useful information for decision-making by investors.
- Optionality for entities to report as is relevant on the basis of financial materiality will be important to a workable framework.

We have provided further detail on the above comments in the attached (Attachment B). If we can provide additional information, please contact [REDACTED], Manager Government Affairs and Approvals on [REDACTED].

Thank you for the opportunity to provide feedback and we look forward to further engagement on this important topic.

Yours sincerely,

[REDACTED]

Senior Vice President Corporate

# INPEX companies in Australia

INPEX has eight Australian-based entities and two branches of Japanese companies. These companies are all governed in accordance with the corporations laws of Australia and Japan. They are 100 per cent owned and controlled by INPEX. In 2021, INPEX held a share of 66.245 per cent in Ichthys LNG Pty Ltd, which is an incorporated joint venture company. This company processes the feed gas sold to it by the Ichthys Upstream Joint Venture Participants. Ichthys LNG Pty Ltd is not covered in this report.

	<i>Company/branch name</i>	<i>Australian head company</i>	<i>Japanese head company</i>	<i>Ultimate beneficial owner</i>	<i>Participating interest in project name/function</i>
<b>Multi-entity consolidation (MEC)</b>	INPEX Holdings Australia Pty Ltd (IHAPL)		INPEX Browse, Ltd	INPEX CORPORATION	Holding company
	INPEX Browse E&P Pty Ltd (IBEPL)		INPEX Browse, Ltd	INPEX CORPORATION	Exploration permits
	INPEX Ichthys Pty Ltd (IIPL)	INPEX Holdings Australia Pty Ltd (IHAPL)	INPEX Browse, Ltd	INPEX CORPORATION	Ichthys upstream project
	INPEX Oil & Gas Australia Pty Ltd (IOGA)		INPEX CORPORATION	INPEX CORPORATION	Prelude Floating LNG
	INPEX New Energy Business Australia Pty Ltd* (NEBA)	INPEX Holdings Australia Pty Ltd (IHAPL)	INPEX Browse, Ltd	INPEX CORPORATION	Renewable investment company
	INPEX Operations Australia Pty Ltd (IOAPL)	INPEX Holdings Australia Pty Ltd (IHAPL)	INPEX Browse, Ltd	INPEX CORPORATION	Operating company
	INPEX Australia Pty Ltd (IAPL)		INPEX CORPORATION	INPEX CORPORATION	Australian payroll company
	INPEX DLNGPL Pty Ltd (IDLNGPL)		INPEX CORPORATION	INPEX CORPORATION	Darwin LNG
<b>Branch of Japanese entity</b>	INPEX Browse, Ltd (IBL)		INPEX CORPORATION	INPEX CORPORATION	Holding company
	INPEX Alpha, Ltd (Alpha)		INPEX CORPORATION	INPEX CORPORATION	Griffin Ravensworth Van Gogh Coniston

\* New entity incorporated on 16 December 2021

**Policy direction**

INPEX considers the proposed change in policy direction since the first round of consultation, with the intention to capture large entities that are not listed in Australia represents, a very major change.

Given the significance of this change, INPEX would like clarification from the Government on the following points:

- What additional value can be provided for investors if the risk and opportunity which proposed reporting requirements will describe is only a subset of that to which their investment is exposed in totality, and the totality of that risk and opportunity is described in other reporting?
- Will the reporting burden and potential liability for reporting entities that will come with such additional value be proportional to risk?
- What synergies are envisaged in combining the objectives of supporting investors and supporting policy makers, and are these still achieved if investors and policy makers do not need to consider the same risk/opportunity boundary?

**Process time frames**

INPEX considers that the proposed timeframe for implementation to be highly compressed and allows insufficient time to develop a thorough understanding of the full extent of entities captured by the proposed reporting requirements, or of the information that such entities would be compelled to provide. There are a number of critical unknowns that should be addressed at a policy level before proceeding to legislation and standards development. Without a clear view in this regard, it is not possible to make an assessment of the value of legislating such disclosures. There is a risk that while significantly more granular information may become available, that such information fails to provide any further clarity or value and unduly burdens reporting entities.

We suggest that the process of policy design and standards development would benefit significantly from a roundtable process that brings together both users and reporters of the proposed information. Such a process could be used to clarify for all stakeholders:

- The needs of users of information (scope/detail);
- The information that may be provided by reporting entities under current policy settings; and
- Whether these two aspects are aligned such that objectives are met.

INPEX considers that additional time would be required to undertake the above and that therefore a target of Q2 2024 for the release of related standards is too ambitious.

We would also suggest that the time between the planned release of the standards and the first submission for Group 1, does not leave sufficient time for entities caught in this tranche to digest the requirements, prepare capacity and capability and develop/execute the required reporting.

**Reporting by unlisted entities***Providing information to equity investors*

INPEX considers that for entities not listed in Australia, the objective of providing information for investors that is useful for decision-making is best met by reporting to a standard consistent with the proposed Australian standard at a parent-entity level.

Equity investors cannot access exposure to Australian entities in isolation, and therefore we consider that for such investors to be provided a clear and holistic picture of the material climate-related financial risk, they must be provided with a view of the risks faced by the corporation as a whole, i.e. the totality of risk to which their investment might be exposed.

If reporting is necessitated at an Australian entity level, then the reporting of certain strategy/planning elements and targets, which are directly cascaded from the parent level or require inputs from the parent level to ensure alignment, will potentially be complicated by timing issues created by differences in the planning and reporting cycles of parent and Australian entities. It is therefore possible that such reporting may perpetually be out-of-date, which given the dynamism of climate related risk, may have a material impact with regards to whether investors have information that is useful in decision-making.

Many risks are managed on a portfolio basis. Whilst a majority of climate-related risks have consequences which may be felt, at least to some extent, across all entities under a multinational corporation, this does not mean that such risks will be similarly addressed at all levels of the corporation, this will necessarily be undertaken by entities that are best placed to do so. A complete picture of climate-related risk management for unlisted Australian entities who are part of larger multinational corporations would require the reporting of many strategic elements outside of the purview of those Australian entities. This would result in a significant replication of information already provided at a corporate parent level and INPEX would therefore question the incremental value in additionally having an Australia-specific report.

INPEX considers that the information that is useful for equity investors is not necessarily the same as that which is useful for Australian policy makers especially in the case of unlisted entities with a parent entity listed outside of Australia. Equity investors will generally require a more holistic (global) view of the risks to which their investment might be exposed, whereas Australian policy makers will consider a more Australian-centric view.

INPEX considers the combination of requirements to report at an unlisted Australian entity level and prescriptive reporting requirements (specifically in relation to certain industry metrics) may in circumstances where there are only a very limited number of assets within Australia, require the publishing of commercially sensitive information. Reporting the same metrics at a parent entity level would still provide investors information regarding the investment risk to which they could be exposed, but at an aggregated level that does not unnecessarily reveal commercially sensitive information.

Notwithstanding our position that information for investors that is useful for decision-making is best provided at a parent-entity level, if separate Australian reporting is ultimately deemed necessary then Government may consider to provide the optionality for unlisted Australian entities to reference parent company reporting (that is consistent with the proposed Australian Standard) in the main, and only report distinctly Australian specific information where consideration of such information provides a materially different view of risk and opportunity to that which might be provided under whole of corporation reporting.

#### *Providing information to financiers and capital markets*

Existing creditors will typically require information on the specific project for which they have provided finance. In INPEX's experience, this means they desire information pertaining to what opportunities are being explored pursuant to the management of the transition risks that are directly related to a particular project/facility, rather than broader information about how an entity is managing risk within a particular jurisdiction. It is also

INPEX's experience that creditors already pursue specific information that enables them to understand the risk of their investments based on their own internal process and policies which are in turn driven by domestic and international financial market regulation. For example, one avenue currently used by creditors to extract such information is through their own regular bespoke KYC (know your client) process.

Given the limited size of this stakeholder group and the specificity of the information that they seek, we consider that such information is best provided directly to such stakeholders on a bespoke as-needs basis.

Similar to equity investors, INPEX considers that capital markets will be best informed of an entity's capacity to manage climate related risk at a parent entity level. For specific projects, the detail sought by prospective financiers during capital raising activities necessitate the delivery of bespoke packages of information rather than ongoing reporting by an unlisted entity in the jurisdiction in which a project is proposed.

INPEX considers the use of reporting thresholds based on revenue and assets alone to be too broad for the purpose of capturing entities whose reporting may assist policy makers and regulators with assessing impacts to systemic financial risk in Australia. For entities not listed in Australia we suggest that a further threshold be included that makes an assessment of the percentage of an entity's financing which has its origins in Australia.

### **Geographical boundary of reporting**

The geographical boundary that might necessarily be covered by an entity reporting on a materiality basis will be different depending on whether an entity is a corporate parent entity that is listed in the country in which it is reporting or an unlisted subsidiary entity. In the case of INPEX's unlisted Australian entities, reporting on the basis of financial materiality would logically result in reporting predominately focussed on an Australian footprint basis, certain aspects of reporting (e.g. Scope 3 reporting) may necessitate a broadening of this footprint. INPEX would not consider it appropriate for Australian entities to be required to provide climate-related financial disclosures covering INPEX CORPORATION entities more broadly. A prescriptive requirement in this regard is likely not to provide appropriate coverage.

### **Consolidation of reporting**

INPEX's corporate structure in Australia consists of multiple separate entities relating to the operations of the Ichthys LNG Project, exploration activities and non-operated joint ventures. Of these, there are five entities related to the operation of the Ichthys LNG Project. As per the proposed roadmap for mandatory disclosure requirements provided in the paper, three of these entities would separately meet the criteria requiring them to report from 2024-2025 onwards. Whilst these entities would report different emissions based upon varying equity share they are otherwise exposed to the same climate-related risks and opportunities.

INPEX's non-operated joint-venture entities would also, as per the proposed roadmap, be called upon to report in later groups. We consider however that the management of climate-risk lies, at an operational level, primarily with the operator and that broader management of such risks as part of a wider portfolio strategy are typically the purview of the parent corporation and not necessarily the subsidiary share-holding entity.

To ensure that reporting can be undertaken efficiently in a way that is reflective of the structure through which related entities managed climate related risk and opportunities, optionality should be provided for the logical consolidation of reporting under a single

entity. Disaggregation of information provided under a single consolidated report can still provide any necessary granularity.

### Scenario analysis

INPEX agrees with the assessment within the paper that *“mandating the use of the same scenario(s) across all reporting entities would embed the risk that a significant climate-related risk or opportunity is overlooked and that the mandated scenario does not reflect potential climate impacts that would be most relevant or significant for all entities”*.

Whilst a high-level requirement for entities to include scenarios that are consistent with Australia’s climate commitments seems reasonable, we would caution against further prescriptiveness. Further prescriptiveness will not necessarily assist with inter-entity comparability. There are many factors that contribute to the specific climate-related risks and opportunities that an entity may face, as such significant diversity exists in this regard, this makes direct comparisons inherently difficult especially if reporting is required at levels within a corporate structure that do not appropriately reflect a holistic view of those risks and opportunities. INPEX notes that IFRS S2 does not mandate the use of any specific scenarios.

Guidance that provides information on how an entity might undertake scenario analysis (i.e. selecting scenarios, choosing variables and other inputs) in a way that delivers useful information and enables entities to work within their own assessment of what is relevant their circumstances would be welcomed.

### Liability and enforcement

INPEX agrees with the stakeholder feedback that Treasury has noted within paper which highlights concerns that *“forward-looking statements would require positions to be taken on inherently uncertain matters and thus leave company directors open to liability for misleading and deceptive conduct”*. The proposed liability approach providing time and scope-limited modification of liability settings does not address the fact that the inherent uncertainty that underpins these concerns is not time-limited.

Whilst we can agree that the requirement of reasonable grounds for forward looking statements and scope 3 reporting is not too high a threshold, we consider that the application of “reasonable grounds” is yet to be tested with regards to climate related disclosures and may not provide the appropriate protections for reporting entities.

### Emissions reporting

Many entities that are proposed to be captured by climate-related financial disclosure reporting will have experience reporting scope 1 and scope 2 emissions through the NGER framework. INPEX would highlight however that reporting of the same emissions under a climate disclosures framework is not a straightforward duplication given that NGER reporting is undertaken on an operational control basis rather than an equity basis. Many entities will not be able to report the same emissions and energy data in their company reports as they do in their NGER reporting as is contemplated in the paper - based on the framework proposed entities may need to adjust NGER reported emissions based upon internal corporate structures and joint venture equity positions. Whilst possible, this will not provide the most straightforward representation of emissions, especially if there is no optionality for entities to sensibly consolidate their climate related disclosures, and will come with an administrative cost.

With regards to Scope 3 emissions, INPEX considers that the challenges faced in accurately reporting and providing assurance of these emissions will remain indefinitely, and are not

function of data quality or an entity's development of internal capability but a matter of cost versus benefit. We broadly agree that materiality in this context would have regard to the relative size of the emissions source and would further clarify this by noting this would mean relative size with respect to other scope 3 emissions within an entity's value chain. The optionality provided for entities to determine the relevant boundaries for reporting of scope 3 emissions in line the materiality concept seems appropriate.

INPEX would contend that assurance requirements in relation to emissions reporting under the climate-related financial disclosures framework would be, even for entities reporting under the NGER framework, overlapping and additional given that basis of reporting will be different.