

Wilderness Society Submission on Climate-Related Financial Disclosures

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Introductory comments from the Wilderness Society

Climate disclosure, trust and the national interest

The Wilderness Society supports the introduction of mandatory climate reporting and also calls for the Australian Government to signal that it will also introduce mandatory biodiversity reporting in the near future.

It is clearly in Australia's national interest that all nations collectively reduce their carbon emissions to levels that secure no more than a 1.5C rise in temperature. In fact, it goes beyond this. It is not just "in" the "national interest", it is "essential" to the "national interest".

It is important to note that the 1.5C level is set at a level at which the widespread climate impacts to natural systems are permanent and irreversible and are more likely to lead to additional cascading climate and biodiversity impacts. This does not mean that there is a guarantee that 1.5C is 'safe', nor that there are no substantive impacts below this level. We have already seen widespread ecosystem collapse in a number of Australian ecosystems at the current level of warming.

A world in which temperatures rise above this 1.5C threshold is a world where Australia loses swathes of biodiversity elements that are a critical part of what makes Australia, Australia. It is also where Australia suffers extensive, high-intensity and high-frequency catastrophic events that fundamentally alter the Australian way-of-life. There can be no sensible argument that it is not in Australia's national interest that global heating is kept below 1.5C.

Therefore it follows that Australia should seek to use all and any lever it has available to support the world achieving this. This can include through diplomacy and international relations, investment, trade, as well as through activities within a domestic context. However, it is through the domestic context that Australia gains its credibility, expertise and power to influence global outcomes. Without a credible domestic approach, Australia cannot use its international levers to



achieve the outcome that is fundamentally essential to our national interest, a 1.5C increase or less world.

The relevance of this discussion of national interest to climate disclosure, is that the economic reliance on fossil fuel interests by a nation reduces its capacity to seek a fossil-free future. Transitions do not happen in a vacuum. There are economic interests who seek to protect their (paper) assets and their business model and will openly and covertly seek to influence governments and community responses to climate change.

The presence of a fossil fuel industry within Australia and fossil fuel-dependent emissions-intensive industries hinders the ability of Australia as a nation, through its governments and community, to transition. It is a zero sum game where the interests of the largely globalised fossil fuels interests and the interests of Australia and the Australian people are exclusive and misaligned.

Effective climate disclosure allows the public - whether as voters, owners of companies, holders of superannuation funds or just as someone affected by climate change - to understand the disjunct between the protection of their interests and the national interest and the actions of fossil fuel and fossil fuel dependent industries. It is also a policy tool for the government to assess industry progress towards emissions reduction goals. There is scope for climate disclosure to be more widely used across all elements of government's economic policy including in foreign ownership decisions, procurement, trade support, industry policy and competition policy.

The connection between the loss of public trust in government and Australia's climate policy record runs straight through the role the fossil fuel interests have played through their "delay and disrupt" tactics in the political arena. Climate disclosure, along with reforms such as establishing a national integrity commission and an independent Environmental Protection Agency (EPA) are key measures to restore trust to the Australian polity.

Greenwashing is not just the gap between claims of a company and their performance, it is a trust gap in the corporate world and also a trust gap in politics in general through the failure of the regulators to deal with it. Right now it is too easy for companies to obscure their performance and their plans in regards to climate change.

While disclosure is important, it is not sufficient on its own to drive change. Much change in the climate risk space has come from Environmental NGOs working with a small set of activist investors plus some progressive investor groups to expose greenwashing and highlight the relative performance of different companies. A nation should not be depending on this successful but at times haphazard approach to deliver outcomes essential to the national interest. It is a dereliction of the most fundamental duty of a government that has had to come to this, outsourcing a national outcome to a narrow subset of the private sector and environmental groups to drive the change a nation needs.

Deforestation should form an element of climate reporting

Deforestation and forest degradation are a major contributor to Australians emissions profile and should form part of the mandatory climate reporting. It particularly should be part of the scope three reporting for supply chains (food, agriculture) and for financed emissions of banks. This should be supported by an improvement to Australia's data collection and reporting framework for land clearing and forest degradation where the Commonwealth should adopt the satellite analysis approach of the Queensland Government's Statewide Landcover and Trees Study to create a more comprehensive, timely and scaled understanding of vegetation loss and gains.



Biodiversity risk needs to immediately follow in climate disclosure footsteps

While climate has been an important focus for corporations and financial institutions, economic systems must address the twin crises of climate change and biodiversity loss.

Therefore, the Wilderness Society would support an extended focus on biodiversity risks as well as climate. This policy should include a mandatory review which would consider the extension of the requirements to biodiversity-related financial disclosures within two years of the entry into force of the climate-related financial disclosures requirements.

Any climate and biodiversity disclosure framework, in order to be credible, should require corporate entities to publicly report on their actual impacts on climate and biodiversity, as well as on human rights, to disclose complaints and grievances they might have received, and transparently communicate on their lobbying activities on climate and biodiversity issues.

The process of creating disclosure regimes must involve a balanced list of stakeholders, including an important role for civil society organisations to limit the risk of such regimes facilitating greenwashing.

The measures considered as part of any biodiversity disclosure should be appropriate for the Australian ecological context and address the most significant risks (i.e. deforestation).

Treasury should consider how decommissioning and rehabilitation liabilities interact with climate disclosure

We understand that the Treasury, like the Wilderness Society, is concerned that too many entities are failing to adequately provision for, or carry out their remediation, rehabilitation or decommissioning obligations. This relates to mining, energy and onshore/offshore oil and gas.

Any unfunded or incomplete liabilities in this area create a risk for both the taxpayer and for the environment. The current accounting standards for provisioning work to obscure these external risks in favor of keeping assumptions unpublished and internal. There is around \$60 billion in offshore oil and gas decommissioning liabilities along with an as-yet-undetermined figure for coal-fired power plants, mines and onshore gas. It is likely that the total figure is well over \$100 billion. Yet the provisioning in the books of these companies is well below this.

Where this becomes important for climate disclosure is that if, for reasons of climate change action, an oilfield or coal-fired power plant or LNG facility is closed early, the decommissioning is brought forward and because of the way it is currently accounted for with discount rates, there will not be sufficient funds provisioned for to carry out the decommissioning. All climate transition plans therefore need to have explicit assumptions around decommissioning.



Answers to key consultation questions

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?

See introductory comments on the national interest.

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?

All fossil fuel interests of any size and any emissions intensive fossil-fuel reliant companies should be immediately covered. Likewise, banks regarding financed land use emissions and food/agricultural entities regarding scope three supply chain issues should also be covered. State-owned forestry entities likewise should be covered.

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?

There should be a qualitative approach that any entities involved in the exploration for, mining of, transporting or burning for power of fossil fuels should be covered regardless of size. All major fossil fuel producers or users should be required to report on a facility by facility basis, as well as on a whole of company basis.

Likewise, banks regarding financed land use emissions and food/agricultural entities regarding scope three supply chain issues should also be covered. State-owned forestry entities should be covered immediately.

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?

While it is important that reporting is internationally comparable, it also needs to be meaningful. And linking the limits of the Australian reporting to a framework that may not always remain domestically-useful should not be absolute.



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)?

The framework should make it easy for the public to understand the climate performance of companies operating within Australia and seek to develop ways to publicise those companies that are adequately transitioning and those that are not. The reporting should be able to be rolled up into multiple scale data sets so the public, investors and the government can make decisions about those companies and facilities that are aligned with our national interest, and therefore how to deal with those that aren't.

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?

It should be released and updated at a frequency that is meaningful for ensuring progress towards and achievement of objectives is reported on accurately and in a timely and transparent fashion, likewise meaningful for government policy making, public scrutiny and investor action.

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)?

It is important that companies cannot game the system through shell companies and joint ownership so that they fall under thresholds for reporting. Ownership in the fossil fuel industry has historically been convoluted and opaque and therefore all fossil fuel companies should have to report the full suite of data regardless of size.

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?

Government should invest in internal government audit capacity and carry out its own primary audits of key companies with significant climate risk. External assurance is a useful function but alone is insufficient for an issue of this magnitude. Likewise, there should be specific climate related skills and standards required for whomever is to carry out the assurance. There should be clear independence guidelines because the history of industry capture in this area is well documented.

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?

It is important that scope 3 reporting of land use and land cover change (ie deforestation and forest degradation) is captured. It is likely to be the key risk to be managed within any biodiversity disclosure framework so it makes sense to begin to incorporate it into climate reporting too.

It is important that any offsets need to be distinctly reported alongside any scope 1, 2, 3 emissions



so the public and the government can understand what is a genuine transition and what is a stopgap measure.

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

Whether a metric is meaningful is more important than consistency. For example, forest definitions that are appropriate to deal with tropical forest loss in the Amazon or Indonesia are not meaningful to apply to deforestation in an Australian context (whether for a biodiversity or carbon loss approach).

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?

Fossil fuel mining companies should be providing transparent information about what they are spending each year on fossil fuel exploration and exploitation versus sustainable energy sources. They should be reporting on the total potential emissions of their fossil fuel reserves and on their new exploration discoveries.

Offsets, if utilised as a last resort (noting the best-practice mitigation hierarchy) should clearly be delineated and the approach, location of the offset, methodology and the years of expected abatement should be made transparent.

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

Specific attention should be given to those companies still involved in expansionary phases of fossil fuel development and those that retain large decommissioning liabilities.

Question 13: Are there any specific capability or data challenges in the Australian context that should be considered when implementing new requirements?

- 13.1 How and by whom might any data gaps be addressed?
- 13.2 Are there any specific initiatives in comparable jurisdictions that may assist users and preparers of this information in addressing these challenges?

Australia needs to develop a more comprehensive approach to monitoring and reporting deforestation. See comments in introduction.

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?



Australia has the capacity to develop useful climate scenarios through its multiple climate and science agencies however, these agencies have been heavily constrained through government pressure. It is important that any scenarios are developed in an open and transparent manner with involvement from civil society.

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?

It is important to note that while the risk focussed on here is primarily that of climate risk on the entity, the core public purpose here is to manage the total risk of these entities on the climate. So the proportionality should be focussed on the level of reporting required to achieve the public policy goal, more than whether a company need bother with it themselves.

Question 16: Are there particular considerations for how other reporting obligations (including continuous disclosure and fundraising documents) would interact with new climate reporting requirements, and how should these interactions be addressed?

See earlier comments on decommissioning reporting standards.

Question 17: While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?

See earlier comments on biodiversity risk.

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

The main thing is that data can be rolled up in meaningful ways to assess multiple groupings for climate performance.

Question 19: Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?

The Australian Treasury should carry out a root and branch review of all of its regulatory frameworks and approaches to consider all of the ways it can drive the climate and biodiversity transitions. If that review finds the need for a dedicated corporate sustainability regulator then that should be put in place.

Other comments

- Climate and biodiversity-related financial disclosures should be



- **Comparable.** Information is more useful when it can be compared with similar information about another entity or with similar information about the same entity from a different time period. Consistency in formatting reports and what information is included will help with their comparability.
 - **Specific** to the company in question. Standardising across the board doesn't account for the fact that some industries are more risk prone than others.
 - **Decision useful.** Stating that the information in the financial statements can be used to make qualified and educated opinions with respect to the company.
- **The requirements need to address a broad range of climate related financial risks, namely:**
 - a) **Credit risk** – through a potential increase in defaults on loans by businesses and households that may be affected by adverse climate events, as well as the potential for assets used as collateral to decline in value; Indeed, there is a risk that companies will be left with **stranded assets**. Indeed, a large part of fossil fuel reserves cannot be burned if the 2°C target is to be attained. The value of fossil fuel assets could plummet as a result of regulatory change, with the potential to cause a major economic crisis¹.
 - b) **Market risk** – through the impact of potential re-pricing of financial instruments and corporate debt affecting the value of securities held on an institution's balance sheet;
 - c) **Operational risk** – including the risk of supply chain disruption and forced facility closures as well as making areas used for commodity production even more susceptible to damages from increasing extreme weather events. This can then lead to volatility of costs resulting in financial instability.
 - d) **Underwriting risk** – through a potential increase in insured losses as a result of more frequent and/or extreme weather events;
 - e) **Liquidity risk** – through an increased demand for liquidity to respond to extreme weather events or the difficulties that may be faced in liquidating assets negatively impacted by climate risks;
 - f) **Reputational risk** – including an institution's ability to attract and retain customers and employees due to changing employee and community expectations. There are **brand equity risks** affecting businesses engaging in, or connected with, activities that some stakeholders consider to be inconsistent with addressing climate change and biodiversity loss;
 - g) **Physical risk** - damage to land, buildings, stock or infrastructure owing to physical effects of climate-related factors, such as heat waves, drought, rising sea levels,

¹[Half world's fossil fuel assets could become worthless by 2036 in net zero transition | Environment | The Guardian](#)



ocean acidification, storms or flooding. Effects are exacerbated by continual damage to biodiversity. Warming caused by greenhouse gases could damage livability and workability—for example, through a higher probability of lethal heat waves. Climate change will undermine food systems, physical assets, infrastructure, and cause irreparable damage to natural habitats.

- h) **Secondary risk** - flow-on effects of physical risks, such as falling crop yields, resource shortages, supply chain disruption, as well as migration, political instability or conflict;
 - i) **Policy/Regulatory risk** - financial impairment arising from local, national or international policy responses to climate change, such as carbon pricing or levies, emission caps or subsidy withdrawal;
 - j) **Liability risk** - financial liabilities including insurance claims and legal damages, arising under the law of contract, tort or negligence because of other climate-related risks. Stakeholder litigation, regulatory enforcement for not considering or responding to the impacts of climate change, biodiversity degradation and the impacts of business disruptions also lead to considerable financial loss.
 - k) **Transitional risk** - financial losses arising from disorderly or volatile adjustments to the value of listed and unlisted securities, assets and liabilities in response to other climate and biodiversity related risks. Transitional risk is a broad term that can be seen as an umbrella definition that encapsulates all the financial risks associated with a changing climate.
- **Transparency and accountability** are key in these climate and/or biodiversity-related financial disclosures. Disclosures should be publicly accessible as a requirement.
 - **Disclosure requirements should be made mandatory for all corporate entities**, as limiting the scope would risk resulting in loopholes - entities that are “small enough” wouldn’t be incentivised to disclose their climate and/or biodiversity risk, even though they might have impacts. Smaller entities are in fact arguably more vulnerable to the risks of climate change and biodiversity loss. The urgency of climate change and biodiversity loss justify urgent action - these disclosures should apply to all corporate entities. Additional guidance and support could be planned for smaller, less equipped entities, to help them navigate the new requirements.