FINANCIAL SERVICES COUNCIL

31 March 2016

Committee Secretary
Senate Economics References Committee
PO Box 6100
Parliament House
Canberra ACT 2600

BY EMAIL: economics.sen@aph.gov.au

Dear Committee Secretary

INQUIRY INTO CARBON RISK DISCLOSURE

The Financial Services Council welcomes the opportunity to make a submission to the Senate Economics References Committee inquiry into carbon risk disclosure.

The Financial Services Council ('FSC') represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, trustee companies and public trustees. The FSC has over 125 members who are responsible for investing more than $2.5 trillion on behalf of 11 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the third largest pool of managed funds in the world.

The FSC welcomes the carbon risk disclosure inquiry and advocates for greater disclosure in relation to carbon risk, especially when supported by standardised reporting frameworks. We see real value in this type of reporting as it promotes transparency and ensures that investors are cognisant of the climate risks inherent in their investment portfolios.

In Appendix A we outline our comments in more detail in response to the invitation to make a submission to the Senate inquiry into carbon risk disclosure.

Please contact me with any questions in relation to this submission on (02) 9299 3022.

Yours sincerely,

JENNA MOLLROSS
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APPENDIX A

CURRENT AND EMERGING INTERNATIONAL CARBON RISK DISCLOSURE FRAMEWORKS

Methodology

The FSC recommends the application of reporting guidelines which apply a consistent methodology, or methodologies, for calculating and reporting carbon emissions and intensity. This methodology should include coverage of Scope 1 and 2 emissions, as well as potentially Scope 3 emissions, and should be consistent to that which is used for greenhouse gas emissions reporting to CDP.

At an individual company level, each of the Scope 1-3 emission disclosures provides insight into the nature of the company-specific carbon risk. However, the challenge at a portfolio level is the risk of double or triple counting of the same emission due to supply chain disclosures under Scope 3 reporting requirements.

Mandatory reporting

The FSC submits that carbon risk disclosure reporting should ideally extend to all Australian Securities Exchange ('ASX') listed companies, rather than limited to specific industries or apply only when minimum thresholds (for example, emissions, revenue, size of operations etc.) are met.

The FSC also supports the introduction of a mandatory reporting requirement for ASX-listed companies to disclose their exposure to particular carbon risk areas, rather than just total greenhouse gas emission during a specified period. Carbon risk areas subject to disclosure could include carbon intensive assets such as power generation, oil and gas pipelines, fossil fuel reserves etc. This requirement could initially be flexible and then be tightened over time as reporting disclosure improves, thereby allowing investors to access better data.

Application of cross-jurisdictional reporting frameworks

The FSC proposes that Australia collaborates with other countries to develop an international mandatory emissions reporting standard, applicable to companies globally. The development of an international reporting standard will reduce the compliance burden of companies that operate across multiple jurisdictions and currently report under multiple reporting frameworks requiring different methodologies and disclosures. It will also enable international investors to robustly assess the carbon risk of their foreign investments.

CURRENT CARBON RISK DISCLOSURE PRACTICES

In our experience many investors are now seeking emissions data for the companies that they invest in to better understand their carbon risk exposure. However, it is difficult for investors to access robust emissions data because of gaps in the current National Greenhouse and Energy Reporting scheme ('NGERs') and the lack of an internationally-agreed approach to carbon disclosure.

The FSC proposes that a more thorough NGERs framework be developed to operate alongside the aforementioned suggested carbon risk disclosures by ASX-listed companies. To improve disclosure and create more robust NGERs reporting standards in relation to domestic companies, we suggest the following:

- Consider lowering the existing NGERs reporting thresholds from 25 kilotonnes to 5 kilotonnes. This should be accompanied by a lowering of the threshold for publication so that the data is publically available for *all* domestic companies that report greenhouse gas data through NGERs, not just those that meet the reporting threshold. This transparency is useful for investors to identify carbon exposure, with the data being provided directly by the reporting companies themselves rather than being sought through third-party carbon portfolio reporting services.

- NGERs should be expanded to include reporting of fossil fuel reserves which are currently not captured as there is no reporting of Scope 3 emissions.

- NGERs currently only reports Australian emissions and not emissions from overseas operations. NGERs should be broadened so as to require the provision of reporting data on total emissions, as well as Australian emissions.

- NGERs should be expanded to provide facility emissions, bringing it in line with global publicly-available facility emissions reporting standards by countries such as the USA and Canada.

- NGERs should require disclosure in relation to both equity-based and operational-based emissions.

Significantly, regarding to the last point above, the FSC recognises the importance of the differentiating between carbon disclosure resulting from operational ownership and equity-based carbon disclosure. This issue is driven by the fact that companies typically report the emissions from operations they control, irrespective of the ownership of the operation. In addition, they do not report emissions from operations they do not control even though they may own a significant proportion of these non-controlled operations. Therefore, a company's exposure from an operational perspective can be very different from an ownership or equity perspective. For example, Woodside Petroleum's operational emissions for the North-West Shelf totals approximately 10 million tonnes but they only own 16% of the operation, so their equity exposure is about 1.6 million tonnes – it is these emissions that an investor in Woodside Petroleum is actually exposed to.

Presently, both the NGERs and CDP reporting frameworks only require operational exposure reporting. The FSC suggests that these reporting frameworks be expanded to take into account equity-based reporting.

The FSC also highlights the importance of differentiating between carbon emission disclosure reporting and the reporting of an assessment of carbon risk. While carbon emission disclosure is significant, it is distinct from disclosing carbon risk which requires the assessment of particular scenarios, a consideration of future emissions and the calculation of the impact of upstream and downstream supply chain effects.

AUSTRALIAN INVOLVEMENT IN THE G20 FINANCIAL STABILITY BOARD DISCUSSIONS ON CARBON RISK IMPACTS FOR FINANCIAL STABILITY

The FSC supports Australian involvement in the G20 Financial Stability Board discussions on carbon risk impacts for financial stability and recognises the need for international alignment leading to improved long-term risk management.

Given countries overseas are already introducing carbon risk disclosure requirements, the FSC believes that mandatory reporting will enable Australia to best position itself for the two degree ('2C') economy agreed to by countries at the Paris COP. Increased disclosure will allow the market to function more efficiently in response to increased global regulation of greenhouse gases and re-allocate capital from carbon intensive assets into clean technology.

The FSC recognises that the proposed 2030 reduction target resulting from 2C economy will decrease the economic greenhouse emission intensity of Australia to a level that is slightly lower than that of the European Union and Korea in 2010. The result of this is that Australia in 2030 will be 20 years behind some our main international competitors in terms of the structural changes needed in the economy.