



Australian Government  
Australian Accounting Standards Board  
PO Box 204, Collins St West, VIC 8007  
Submitted electronically

Dear Australian Accounting Standards Board (AASB),

We thank you for the opportunity to provide comment on the draft IFRS S1 General Requirements for Sustainability-related Information and draft IFRS S2 Climate-related Disclosures.

Publish What You Pay (PWYP) Australia is a civil society coalition of anti-corruption, human rights, faith-based, environment, and union organisations campaigning for greater transparency and accountability in the oil, gas and mining sectors.<sup>1</sup> We work with the global Publish What You Pay coalition, a network of over 1000 organisations in more than 51 countries around the world, united in our call for an open and accountable extractive sector, so that communities share in the benefits of our natural resources and a just transition.

The task of ensuring a just energy transition and keeping global heating to below 1.5° C degrees requires strong accounting standards and climate related disclosures, particularly for Australia's oil, gas and mining sectors. This comment provides feedback from civil society to support AASB's input into the work of the ISSB; and inform the AASB on important sustainability and climate related disclosures.

I enclose the following submission for your consideration and look forward to discussing these issues in more detail over the coming months.

Yours sincerely,

A handwritten signature in blue ink that reads "Clancy Moore".

Mr. Clancy Moore  
Publish What You Pay Australia – National Director

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<sup>1</sup> More information on the 30 organisations that make up the Publish What You Pay Australia coalition go: [www.pwyp.org.au](http://www.pwyp.org.au)



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## Comment for Australian Accounting Standards Board (AASB) [Draft] IFRS S1

### General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures

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There is a global consensus among policymakers, scientists, financial institutions, and market regulators that climate change is real and that impacts of global heating will devastate our communities, economies, and eco-systems.

The latest Intergovernmental Panel on Climate Change (IPCC) report predicts widespread economic impacts from climate change and related extreme weather events, which could cause significant economic instability, limited access to natural resources and disruptions in supply chains.<sup>2</sup>

The costs of not acting on climate change are also high for Australia. Failing to rapidly cut emissions this decade will cost future generations to come. The Climate Council of Australia reported that for Australia, they economic costs would be \$129 billion per year.<sup>3</sup> The Insurance Council of Australia (ICA) estimated the insurance costs of the April QLD and NSW floods in 2022 as being \$3.35 billion alone.<sup>4</sup> The incoming federal government has recently ordered the Department of Treasury to model the costs of climate change.

As climatic events increase in frequency and severity, the associated costs that have been rising over the last two decades, will only continue to rise. Indeed, the IPCC's August 2021 report noted, "there will be an increasing incidence of unprecedented extreme climate events even at a warming of

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<sup>2</sup> Intergovernmental Panel on Climate Change (IPCC), 2022. *Climate Change 2022: Impacts, Adaptation and Vulnerability Summary for Policymakers*. February 2022, pg. 21 para. B.5.3. Accessed: <https://www.ipcc.ch/report/sixth-assessment-report-working-group-ii/>

<sup>3</sup> Climate Council, (2021), *Markets are moving: The economic costs of Australia's climate inaction*, accessed: [https://www.climatecouncil.org.au/wp-content/uploads/2021/10/Markets-Are-Moving\\_V5-FA\\_High\\_Res\\_Single\\_Pages.pdf](https://www.climatecouncil.org.au/wp-content/uploads/2021/10/Markets-Are-Moving_V5-FA_High_Res_Single_Pages.pdf)

<sup>4</sup> ICA, (2022), *Updated Data Shows 2022 Flood was Australia's costliest*, accessed: <https://insurancecouncil.com.au/resource/updated-data-shows-2022-flood-was-australias-costliest>



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1.5°C, the limit set under the UN's Framework Convention on Climate Change's Paris Agreement, and that these extremes will get worse for every additional fraction of a degree of warming."<sup>5</sup>

The CSIRO states: "Australia has already experienced increases in average temperatures over the past 60 years, with more frequent hot weather, fewer cold days, shifting rainfall patterns and rising sea levels".<sup>6</sup> The impacts of climate change have serious consequences for virtually every sector of society from extractives, tourism, manufacturing, and agriculture.

There is also global consensus across government, industry and civil society that greenhouse gas (GHG) emissions need to be cut dramatically to ensure global heating does not exceed the agreed target of 1.5°C warming.<sup>7</sup> This is particularly important for Australia and our industry as we are home to more than 700 ASX resources companies operating in more than 100 countries globally. Our recent research shows that there are 116 ASX listed fossil fuel companies with almost 400 planned and operational coal, oil and gas projects<sup>8</sup>. This includes many in low- and middle-income countries such as Indonesia, South Africa and PNG.

The need to transition to a lower-carbon economy is already shifting economic models as future regulations and changes in consumer demand impact how energy is sourced and used. The energy transition will have sweeping impacts on nearly every corner of our economy, and there can be no question that those industries that require or benefit from a high carbon economy will – and in many

<sup>5</sup> IPCC Working Group I. 2021. *Climate Change 2021: The Physical Science Basis*, August 6, 2021, p.SPM-5, <https://www.ipcc.ch/report/sixth-assessment-report-working-group-i/>

<sup>6</sup> CSIRO, (2022), *Climate Change in Australia*, accessed: <https://www.csiro.au/en/research/environmental-impacts/climate-change/climate-change-information>

<sup>7</sup> IPCC, (2018), *Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty* [Masson-Delmotte, V., P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)]. Summary for Policy Makers, Accessed: <https://www.ipcc.ch/sr15/>

<sup>8</sup> This refers to upstream companies involved in exploration and production



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cases already do – face substantial changes to their business models and financial prospects. Given the universal and transformational nature of climate change, and the necessary transition to a low carbon economy, it is therefore essential that sustainability accounting standards and climate related disclosures for listed companies reflect this and support the transition.

As BlackRock’s CEO Larry Fink succinctly put it: “climate risk is investment risk.”<sup>9</sup> The risk of climate change has been identified by both market participants and regulators, internationally and domestically, as having a demonstrable impact on portfolio performance.<sup>10</sup> Climate change is one of the most significant investment issues facing investors today....climate related risks will impact all economies, asset classes and industries, as well as societies and the physical environment.<sup>11</sup>

Australian and international accounting standards should include sustainability reporting and require companies to disclose information about their climate-related financial risks and metrics. This will help level the playing field for reporting and help investors understand the risks and opportunities associated with their investments to make informed decisions about how to allocate capital.

Likewise, information relating to climate-related risk governance and management processes, a company’s GHG emissions profile, and financial resilience are essential for Australian investors to be more fully able to assess risks and climate impacts and the broader stability of financial markets.

This submission draws on the work of the PWYP coalition in the US and focusses on Australia’s upstream coal, oil and gas sectors.

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<sup>9</sup> BlackRock, (2020). *BlackRock’s 2020 Letter to Clients: A Fundamental Reshaping of Finance*. January 2020, <https://www.blackrock.com/us/individual/larry-fink-ceo-letter>

<sup>10</sup> The Association of Superannuation Funds of Australia, (2021), *Climate Change Risk: A discussion paper*, Accessed: [https://www.superannuation.asn.au/ArticleDocuments/270/211001\\_ASFA\\_Climate\\_Change\\_Paper.pdf](https://www.superannuation.asn.au/ArticleDocuments/270/211001_ASFA_Climate_Change_Paper.pdf)

<sup>11</sup> Australian Super, (2022), *How we invest: Climate Change*, accessed: <https://www.australiansuper.com/investments/how-we-invest/climate-change>



## Part A: The materiality of climate risk and sustainability reporting for coal, oil and gas sectors

This section responds to: *Part A: Matters for comment relating to specific proposals in Exposure [Draft] IFRS S1 Sustainability Disclosures, question 8. on materiality and [Draft] IFRS S2 Climate-related disclosures, questions 4. and 5.* This section outlines how the coal, oil and gas sectors are the most significant, and most immediately, impacted sectors by both physical and transition climate risks.

Climate-related risk information and sustainability reporting for Australia's coal, oil and gas sectors, including the 116 ASX listed companies with 396 planned and operational fossil fuel projects<sup>12</sup>, are most clearly and unquestionably material. There are many more private companies involved in fossil fuel but less transparency on their operations, size and climate related information. There is broad, global consensus that in order to avoid the worst, and most costly, impacts of climate change, global warming must be limited to 1.5°C.

In March 2022, the Tyndall Centre for Climate Change Research found that in order to preserve even a 50-50 chance of keeping warming below 1.5°C, we need "immediate and deep cuts in the production of fossil fuels" with oil and gas production phased out no later than 2050 and in the wealthiest nations by 2034.<sup>13</sup> The financial implications of failing to phase out fossil fuels and transition to less carbon-intensive energy sources is profound.

<sup>12</sup> This refers to the number of ASX materials and energy companies involved in exploration and production of coal, oil and gas. Projects does not refer to energy generation projects such as a coal fired project or gas rig.

<sup>13</sup>The Tyndall Centre for Climate Change Research is a UK-based organization that works with several universities to bring together scientists to "research, assess and communicate from a distinct trans-disciplinary perspective, the options to mitigate, and the necessities to adapt to current climate change and continuing global warming, and to integrate these into the global, UK and local contexts of sustainable development." Calverley, Dan and Kevin Anderson, "Phaseout Pathways for Fossil Fuel Production Within Paris-compliant Carbon Budgets," *Tyndall Centre for Climate Change Research*, March 2022,



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There is also a consensus that demand for coal (thermal), oil and gas is in decline which makes climate related reporting material. A peer review paper showed demand for Australia's thermal coal will decline in two to three years due to decreases and uncertainty in Chinese demand.<sup>14</sup> The study's modelling predicts Australian thermal coal exports would sink to 30-40 m tonnes in 2025, from about 50Mt in 2019. For coking or metallurgical coals, exports from Australia would drop from about 30Mt in 2019 to 20-22Mt by 2025.<sup>15</sup> In 2021, a new consensus emerged among the largest and most prominent industry forecasters, including the International Energy Agency (IEA), Rystad Energy, and Wood Mackenzie, that 2050 demand for oil and gas will fall below current levels of about 100 million barrels per day.<sup>16</sup> This reduction in demand for thermal coal, oil and gas is despite an expected doubling of global domestic product (GDP) by 2050. These facts untie the virtual lockstep growth in hydrocarbon demand and economic growth witnessed over many decades.<sup>17</sup>

In relation specifically to oil, there is significant debate around the specifics of the declining rate of oil. The 2022, the IEA stated "Global oil demand rebounded in 2021 from its Covid-induced historic decline and while demand is set to keep increasing in the immediate years, its longer-term outlook is

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pp. 6 and 49, [https://www.research.manchester.ac.uk/portal/en/publications/phaseout-pathways-for-fossil-fuel-production-within-pariscompliant-carbon-budgets\(c7235a8e-e3b1-4f44-99de-c27958c03758\).html](https://www.research.manchester.ac.uk/portal/en/publications/phaseout-pathways-for-fossil-fuel-production-within-pariscompliant-carbon-budgets(c7235a8e-e3b1-4f44-99de-c27958c03758).html).

<sup>14</sup> Gosens, J., Turnbull, A., & Jotzo, F., (2022), China's decarbonization and energy security plans will reduce seaborne coal imports: Results from an installation-level model": Science Direct, *Volume 6, Issue 4*, 20 April 2022, Pages 782-815, accessed: <https://www.sciencedirect.com/science/article/pii/S2542435122001350>

<sup>15</sup> Ibid

<sup>16</sup> International Energy Agency (IEA), 2021. *Net Zero by 2050: A Roadmap for the Global Energy Sector*. May 2021, pg. 18, <https://www.iea.org/reports/net-zero-by-2050>; See also Wood Mackenzie. 2021. *Reversal of Fortune: Oil and Gas Prices in a 2-degree World*. 2021, pg.5, <https://www.woodmac.com/horizons/reversal-of-fortune-oil-and-gas-prices-in-a-2-degree-world/>; Rystad Energy. 2021. *Slowing down as electric vehicles accelerate, oil demand set to peak at 101.6 million bpd in 2026*. April 21, 2021, <https://www.rystadenergy.com/newsevents/news/press-releases/slowing-down-as-electric-vehicles-accelerate-oil-demand-set-to-peak-at-101p6-million-bpd-in-2026/>

<sup>17</sup> PWYP US, (2022), *PWYP US comment on SEC Proposed Climate Rule June 2022*,



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uncertain.”<sup>18</sup> Leading energy analysts, Rystad predicts that peak oil demand will be in 2026 and then drop in the coming years.<sup>19</sup>

The transition away from fossil fuels is already underway in Australia and globally and will have dramatic impact on our economy, investment decisions and communities. Transition risks are defined as the risks involved in the transition to a low-carbon economy. The drivers of transition risks for the 116 ASX listed coal, oil and gas companies involved in exploration or production of fossil fuels, include government and international regulation, policies and legislation, changes in consumer demand and technological drivers. These drivers also impact downstream operators who are responsible for activities are extraction.

The transition risks and physical risks associated with climate change will impact the operating costs and asset valuation of ASX listed and private coal, oil and gas companies. These companies are generally capital intensive, require major financial investments in fixed assets and supply chain management, and have longer business strategy/capital allocation planning horizons relative to many other sectors—horizons that may be particularly affected by climate-related risks and opportunities.<sup>20</sup> This in turn requires careful assessment of climate-related risks and opportunities to inform future decisions.

Australia government regulation includes the recently submitted, and more ambitious, Nationally Determined Contribution (NDC) to the UNFCCC which committed Australia to a 2030 target by reducing GHG emissions by 43% below 2005 levels. Whilst the government hopes to use some

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<sup>18</sup> IEA, (2022), *World Oil Production*,

<sup>19</sup> Rystad, (2021), *Slowing down as electric vehicles accelerate, oil demand set to peak at 101.6 million bpd in 2026*, accessed: <https://www.rystadenergy.com/newsevents/news/press-releases/slowing-down-as-electric-vehicles-accelerate-oil-demand-set-to-peak-at-101p6-million-bpd-in-2026/>

<sup>20</sup> TCFD, (2021), *Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures*, p63.





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carbon offset credits to meet these targets there will also be a required phase out of coal, oil and gas usage by 2030 which will impact many Australian producers, companies and supply chains. These and other transition risks represent a clear case of the materiality of climate related risks for ASX listed coal, oil and gas companies.

Furthermore, the potential of stranded assets and how companies account and plan for these risks is also considered material. The Centre of Decommissioning Australia (CODA) estimates the costs of decommissioning Australia's offshore gas and oil assets to be around \$55billion by 2050.<sup>21</sup> A disorderly transition can harm financial stability, thus limiting firms' capacity to invest in low-carbon activities that could decrease their exposure to transition risk and help them recover from climate physical shocks.<sup>22</sup>

To further demonstrate the materiality of climate related and sustainability reporting is the fact that coal, oil and gas company valuations are based on the viability of future reserves. Specifically, the most common means of assessing the value of a ASX listed coal, oil and gas company involves the estimation of the economic life or availability of its oil and gas reserves, especially proven reserves over an investment horizon. This evidenced by an IHS Energy analysis has found that about 80 percent of the value of most publicly traded oil and gas companies in the US is based on the viability of proved reserves.<sup>23</sup> Put simply, fossil fuel companies hold vast oil, gas and coal reserves that help determine their market value. These reserves are also the basis to understanding the potential

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<sup>21</sup> The CODA is a collaboration between many of the world's major oil and gas companies, including Chevron, Woodside Energy, Santos Limited, Esso Australia Pty Ltd, and BHP and many leading service and research organisations. See <https://www.nera.org.au/News/CODA-launch/CODA-launch>

<sup>22</sup> Gourdel, R., Monasterolo, I., Dunz, N., Mazzocchetti, A., & Parisi, L., (2022). "The double materiality of climate physical and transition risks in the euro area," [Working Paper Series](#) 2665, European Central Bank.

<sup>23</sup> According to the Society of Petroleum Engineers, a proven reserve refers to "quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations." Society of Petroleum Engineers, "Glossary of Terms Used in Petroleum Reserves/Resources Definitions," <https://www.spe.org/en/industry/terms-used-petroleum-reserves-resource-definitions/>



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climate risks of burning these fuels. To date there is yet to be harmonized mandatory approach or common accounting standards for companies to disclose their potential emissions from these reserves particularly at a project level.<sup>24</sup> Mark Carney, the FSB chair stated that a carbon budget consistent with a 2°C target “would render the vast majority of reserves ‘stranded’ — oil, gas and coal that will be literally unburnable without expensive carbon capture technology, which itself alters fossil fuel economics.”<sup>25</sup>

Underpinning companies’ estimates of future cash flow are assumptions about long-term future demand and future commodity prices, which are largely based on historic oil prices. Because oil and gas companies’ valuations are heavily influenced by historical data, very few oil and gas companies are currently factoring in the risks of decreased demand in the next 30 years and the potential impacts that seismic market shifts could have on the economic viability of different projects and overall reserves figures.

It is now widely accepted within many major financial markets that climate-related impacts on a company can be material and must require granular disclosure. The idea of double materiality is becoming an international norm. This means that climate related impacts on a company are material but also that the impacts of a company on the climate are material.<sup>26</sup> The recent EU’s sustainable finance disclosure reporting rules introduced by the Non-Financial Reporting Directive established important principles for certain large companies to report sustainability information on an annual basis, introduced a ‘double materiality perspective’, meaning that companies have to report about

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<sup>24</sup> PWYP US, (2022), *Public Comment on SEC Proposed Climate Rule June 2022*,

<sup>25</sup> Carbon Tracker, (2022), *Stranded Assets*, accessed: <https://carbontracker.org/terms/stranded-assets/>

<sup>26</sup> Täger, M, (2021), *Double Materiality: What is it and why does it matter?*, London School of Economics, accessed: <https://www.lse.ac.uk/granthaminstitute/news/double-materiality-what-is-it-and-why-does-it-matter/>



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how sustainability issues affect their business and about their own impact on people and the environment.<sup>27</sup>

## Part B: The importance of disclosures of Scope 1, Scope 2 and Scope 3 GHG emissions disclosures for the coal, oil and gas industries

This section responds to *Part B: Matters for comment relating to specific proposals in Exposure Draft on [Draft] IFRS S2*. We strongly support the requirement for companies to disclose qualitative data made with reasonable assurance about the intensity of their Scope 1 and Scope 3 GHG emissions for the fiscal year, with separate calculations for the sum of Scope 1 and 2 GHG emissions.

The IISB's IFRS S2, climate related disclosures states "Scope 3 emissions, is becoming more common and the quality of the information provided across all sectors and jurisdictions is improving. This development reflects an increasing recognition that Scope 3 emissions are an important component of investment-risk analysis because, for most entities, they represent by far the largest portion of an entity's carbon footprint".<sup>28</sup>

Disclosure of direct emissions (Scope 1) and emissions from electricity and heat (Scope 2) provides valuable context for certain important financial estimates and assumptions, particularly related to the value of long-lived assets and the sustainability of certain operating costs. Importantly, disclosure of emissions from entities in a company's value chain (Scope 3) are perhaps even more critical, as they provide information about potential transition risks to their supply chain or revenue base and about opportunities to partner with customers and suppliers on mitigating this risk.

Whereas Scope 1 and Scope 2 emissions are much more directly linked to a company's operations,

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<sup>27</sup> European Commission, (2021), *Questions and Answers: Corporate Sustainability Reporting Directive proposal*, [https://ec.europa.eu/commission/presscorner/detail/en/QANDA\\_21\\_1806](https://ec.europa.eu/commission/presscorner/detail/en/QANDA_21_1806)

<sup>28</sup> IFRS, (2022), *ISSB exposure draft 2022, climate related disclosures*, p.22



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Scope 3 emissions are impacted by a number of external factors, including the physical risks of climate change, and the risks associated with the transition to a low-carbon economy, which can also affect entities up and down a company's value chain.

Under the National Greenhouse and Energy Reporting (NGERs) legislation, large emitting coal, gas and oil companies are required to report their Scope 1 and Scope 2 emissions and energy consumption. This information is relevant to assessing carbon risk and can be linked back to TCFD recommendations in relation to targets and metrics. Importantly however, NGERs reporting doesn't address carbon risk exposure embedded in the company's broader value chain, supply chain or fossil fuel reserves, for example, as represented by Scope 3 emissions.<sup>29</sup>

Mandating Scope 3 emissions disclosures would ensure that investors and others have the reliable information they need for investment and voting decisions in a timely fashion. Many investors are already encouraging Scope 3 emissions disclosures of large coal, oil and gas companies.

In the US, 75 investors with USD \$4.7 trillion of assets under management wrote: "investors need robust, complete and comparable disclosure of emissions data to determine which companies are aligning their business activities with Paris targets, thereby minimizing transition risks...Scope 3 emissions are the largest source of emissions and present the most significant opportunities to influence GHG emissions reductions. Failure to require disclosure and reporting of Scope 3 emissions is therefore likely to result in the largest source of emissions remaining unaccounted for in company reporting and unaddressed in company activities."<sup>30</sup> In response to investor pressure, ASX

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<sup>29</sup> IGCC, (2021), *Confusion to Clarity: A plan for mandatory TCFD-aligned disclosure in Australia*, P17,

<sup>30</sup> As You Sow, (2022), *Verified Scope 3 emissions disclosure is required or the rule will not be useful* Accessed: [75 Investors With \\$4.7 Trillion AUM Weigh in on Upcoming SEC Climate Disclosure Rulemaking — As You Sow](#)



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companies BHP and Rio Tinto, are now disclosing, and setting goals to reduce, their Scope 3 emissions.

Fossil fuel companies should disclose Scope 1, 2 and 3 GHG emissions data at a project level, based on contract terms or relevant lease agreement. Aggregated emissions figures can often enable issuers to obfuscate the extent of risk inherent in asset portfolios by hiding high-risk projects in pools of less risky assets. Moreover, aggregated figures also prevent investors from being able to see how companies are working to address emissions risks within their portfolios. With project level data, an investor can determine whether a company is working to lower emissions by simply selling off dirty assets or by cleaning up operations.

An important feature of the global standard on extractives sector payments-to-governments disclosure has been the focus on project-level reporting with disaggregated payment information. This information has allowed investors and the broader public to understand individual mining, oil, and gas projects' fiscal impacts at the local level. Specifically, project disclosures in almost all jurisdictions include the specific amounts paid to specific disaggregated government recipients at all levels of government for each of a variety of different types of payments made. Aside from the extractive sector international norms of payment disclosures – the Extractive Industries Transparency Initiative and mandatory payments-to-governments disclosures – the Global Reporting Initiative (GRI) also requires project level reporting for the coal, oil and gas sectors.<sup>31</sup>

Project-level data also enables investors to determine how host-government actions impact transition risks faced by companies both positively (by cleaning up the electricity grid, for example)

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<sup>31</sup> See Global Reporting Initiative (GRI) sector specific standards for coal (GRI 12) and oil and gas (GRI 32), via <https://www.globalreporting.org/standards/sector-program/>



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or negatively (by failing to create an enabling environment to bring emissions down). Data at this level of granularity is so useful that companies such as ExxonMobil are already sharing it with company decision makers.<sup>32</sup> Making this information publicly available would allow investors to understand which projects are most at risk and plan accordingly

Publish What You Pay endorses two widely accepted reporting standards – the TCFD and the GHG Protocol – into Australia’s future accounting and climate related disclosures requirements. Notably, the TCFD has contemplated climate-related disclosures since it was created by the Financial Stability Board in 2015, and provides authoritative guidance on the subject, including on Governance, Strategy, Risk Management, and Metrics and Targets.

As of July 2022, the TCFD’s supporters include “1,384 financial firms, responsible for assets of \$215.6 trillion.”<sup>33</sup> These includes Australian firms such as AGL, BHP, South32, Rio Tinto and Woodside Energy.<sup>34</sup> Australia adopting TCFD-aligned definitions would reduce the costs of implementing disclosure requirements for registrants who already use TCFD or a TCFD-aligned frameworks, and would also facilitate future efforts at global harmonization, improving the cross-border comparability of climate-related disclosures. For GHG emissions disclosure, the GHG Protocol’s Corporate Accounting and Reporting Standard (GHG Protocol) is by far the most comprehensively used global GHG accounting standard, and its concepts and vocabulary are widely understood by registrants and investors.<sup>35</sup>

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<sup>32</sup> PWYP Australia, (2021), *Exxon’s project level analysis shows mandatory reporting is needed*, accessed: <https://www.pwyp.org.au/news/21102021exxon-analysing-project-level-climate-impacts-shows-need-for-mandatory-disclosure>

<sup>33</sup> TCFD, (2022), *Overview. May 2022*, pg. 36. Accessed: [https://assets.bbhub.io/company/sites/60/2022/05/TCFD\\_Overview\\_Booklet\\_Digital.pdf](https://assets.bbhub.io/company/sites/60/2022/05/TCFD_Overview_Booklet_Digital.pdf)

<sup>34</sup> TCFD, (2022), *Supporters, June 2022*, Accessed: <https://www.fsb-tcf.org/supporters/>

<sup>35</sup> GHG Protocol, (2022), *Companies and Organizations*. Accessed: <https://ghgprotocol.org/companies-and-organizations>



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Part C: Matters for comment relating to both Exposure Drafts on [Draft] IFRS S1 and

## [Draft] IFRS S2

We urge the AASB and IISB in reviewing the IFRS S2 Climate Related Disclosure Draft to include in its objectives the concept of double materiality as being particularly relevant for coal, oil and gas sectors. We note the adoption of the concept of double materiality in the objectives and considerations for companies by European Financial Reporting Advisory Group (EFRAG) and the EU's CRSD.

Based on the concept of double materiality, the large physical and transition risks facing the sector and Australia's 116 ASX listed companies involved in exploration and production of coal, oil and gas, strongly encourages the inclusion of granular and robust Scope 3 emissions disclosures at the project level for the coal, oil and gas sectors.

In response to IFRS S2 Climate-Related Disclosures, *Q9. Cross-industry metric categories and greenhouse gas emissions*, we encourage requiring companies to disaggregate GHG emissions for Scope 1, Scope 2, and Scope 3 by specific types such disclosing methane (CH<sub>4</sub>) separately from nitrous oxide (NO<sub>2</sub>). Clearly this is relevant for the coal, oil and gas sector given the large amounts of methane, including fugitive emissions, and reported differences in company reporting and scientific studies on methane emissions from projects in Australia.<sup>36</sup>

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<sup>36</sup>New research using satellite technology has found that Australia could be under-reporting the true extent of its greenhouse gas emissions from coal mines. A peer reviewed study by Dutch scientists claims six mines in the Bowen Basin emit twice as much methane as mining companies have been reporting to government. See: <https://www.abc.net.au/news/2021-12-03/new-data-suggests-australia-could-be-underreporting-methane/13660496#:~:text=New%20research%20using%20satellite%20technology,have%20been%20reporting%20to%20government>.

Additionally see industry articles outlining the challenges of methane leakage here: <https://www.ausimm.com/bulletin/bulletin-articles/australian-fugitive-methane-reduction-a-case-study-for-coal-mining/> and reports from Melbourne University here: <https://www.climatecollege.unimelb.edu.au/review-current-and-future-methane-emissions-australian-unconventional-oil-and-gas-production>

Additionally, we support the disclosure of scenario analysis from companies, including the coal, oil and gas sectors, when it is utilised to communicate its climate change strategy. This is particularly relevant for coal, oil and gas companies when setting GHG targets. The EC's European Financial Reporting Advisory Group (EFRAG) already requires this of companies. Given the uncertainty of different emission pathways and commitments, scenario analysis. Scenario analysis has emerged as a key analytical tool for assessing the potential impacts of climate change because it allows market participants to understand multiple possible outcomes while still reflecting a realistic level of uncertainty.

In response to question 10. As requested in the IFRS S2, P24, another key inclusion to the AASB and in-turn IISB would be the requirement of disclosing GHG emission reduction targets and specifically explaining how a transition plan is aligned with limiting global warming to 1.5 °C in line with the Paris Agreement. We also support the need for third party validation of any targets that are disclosed given recent allegations of large coal, oil and gas companies greenwashing climate reporting.<sup>37</sup>

A key recommendation under the Strategy heading, in Task Force on Climate-Related Financial Disclosure (TCFD) is the use of scenario analysis. According to Accounting for Sustainability, "it allows a company to understand and quantify the risks and uncertainties it may face under different hypothetical futures and thus helps in decision making and allows businesses to shape their strategy".<sup>38</sup> According to the ISSB (p.17), "[m]any entities use scenario analysis in risk

<sup>37</sup> Li M, Trencher G, Asuka J (2022) The clean energy claims of BP, Chevron, ExxonMobil and Shell: A mismatch between discourse, actions and investments. PLoS ONE 17(2): e0263596. <https://doi.org/10.1371/journal.pone.0263596>

<sup>38</sup> Accounting for Sustainability, (2022), *TCFD Climate Scenario Analysis*, accessed: <https://www.accountingforsustainability.org/content/dam/a4s/corporate/home/KnowledgeHub/Guide-pdf/A4S%20Guide%20to%20TCFD%20Climate%20Scenario%20Analysis.pdf.downloadasset.pdf>





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management.”<sup>39</sup> The ISSB also argues that for some sectors, specific climate-related scenario

analysis is already common practice; “[s]ome sectors, such as extractives and minerals processing, have used climate-related scenario analysis for many years.”<sup>40</sup>

However, companies often provide little to no detail to investors regarding the forward-looking assumptions used in these assessments, which further underscores the importance of disclosing key assumptions and estimates. Disclosures of scenario analysis was recommended by the TCFD for a number of reasons, including demonstrating resilience of the business model and strategy to climate change and identifying potential financial risks and opportunities.<sup>41</sup> CDP notes that many companies use rely on one scenario, don’t include the rights scenarios for their business and fail to report on the use of scenario analysis.<sup>42</sup>

Many ASX listed companies have signed up to net zero by 2025 commitments and are relying on offsets, including many unproven technologies such as Carbon Capture Storage (CCS). As such, we support the inclusion in IFRS S2 draft, paragraph 13, for the requirement of disclosures around the use of carbon offsets, including the verification, types of offsets, whether the amount offset is achieved, and any other information on the credibility and integrity of the offsets.

Publish What You Pay Australia strongly supports the usefulness of the information that is proposed in relation to sustainability and climate related disclosures to primary users being investors and

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<sup>39</sup> IFRS Foundation. 2022. Exposure Draft: Climate-Related Disclosures. 2022, pg. 17, <https://www.ifrs.org/content/dam/ifrs/project/climate-related-disclosures/issb-exposure-draft-2022-2-climate-related-disclosures.pdf>.

<sup>40</sup> Ibid

<sup>41</sup> CDSB & ESG Research, *How to make TCFD useful for investors: a short guide*, accessed:

[https://www.cdsb.net/sites/default/files/how\\_to\\_make\\_tcf\\_d\\_scenarios\\_useful\\_for\\_investors\\_a\\_short\\_guide.pdf](https://www.cdsb.net/sites/default/files/how_to_make_tcf_d_scenarios_useful_for_investors_a_short_guide.pdf)

<sup>42</sup> CDP is a not-for-profit that helps companies, investors and organisations manage their environmental impacts including advising on climate disclosures. See CDP, (2022), *Common Pitfalls companies make when using scenario analysis and how to avoid them*, accessed: <https://www.cdp.net/en/articles/companies/3-common-pitfalls-companies-make-when-using-scenario-analysis-and-how-to-avoid-them>



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companies but also to government regulators and communities as secondary users. Once again for Australia's coal, oil and gas companies project level data is essential in order to inform investors of risks and performance to enable investment decisions.

#### Part D: Matters for comment relating to the AASB's proposed approach (D1) and how the proposals are in the best interests of the Australian economy (D2)

This section responds to section D1 in relation to AASB proposed approach and D2 in relation to the proposals being in the best interests of the Australian economy. We support the AASB's attempts to align the approach with the growing consensus on ensuring level playing field for sustainability and climate related reporting as evidenced by the IISB, TCFD and GRI's work for common reporting across jurisdictions. Furthermore, any sustainability standards and climate related reporting must be mandatory as Publish What You Pay's 20 years of experience in advocating for greater transparency in the mining, oil and gas sectors has demonstrated that voluntary schemes do not create the sufficient incentives for company compliance. We also note the mandatory climate disclosure regimes in place or underway in the UK, US, New Zealand, Hong Kong and others. Further, we support the Investor Group on Climate Change, Center for Policy Development and UN Principles for Responsible Investment calls for TCFD aligned climate mandatory reporting in Australia by 2024.<sup>43</sup> The proposed implementation would be guided by a joint taskforce including representatives from investors, business, and the major accounting bodies under the oversight of the Council of Financial Regulators, consistent with the recommendations of the Climate Change Authority.<sup>44</sup>

Overwhelmingly the proposals in drafts IFRS S1 and [Draft] IFRS S2 are in the best interests of the Australian economy. Given the reliance of revenues from coal, oil and gas and the Australian

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<sup>43</sup> IGCC, (2021), *Confusion to Clarity: A plan for mandatory TCFD-aligned disclosure in Australia*,

<sup>44</sup> Ibid



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government's increased GHG emissions targets and NDC, it clear that there is a need for strong accounting standards that include sustainability and climate related disclosures to support decarbonization and a just transition. This includes the aligned GHG emissions disclosures for Scope 1, Scope 2, and Scope 3, including emissions intensity and actual amounts, transition plans and disclosures around scenario analysis and the assumptions underpinning them.

As part of a global coalition, we **strongly support moves for internationally aligned sustainability and mandatory climate related disclosures across capital markets that are home to large numbers of resources companies such as the UK, 27 EU nations, US and Canada.**

## Part E. Main Recommendations

### Industry specific disclosures for the coal, oil and gas industry

As the ultimate source of the majority of Australia's greenhouse gas ("GHG") emissions, Australia's upstream coal, oil and gas companies have outsized transition risks whose impacts will be felt throughout financial markets if they are not adequately priced into investment and voting decisions. As discussed above, little to no climate transition risk is currently priced into the oil and gas sector. Akin to the GRI, we **recommend industry specific sustainability and climate related disclosures for the coal, oil and gas sectors.**

### Project-level GHG emissions disclosure

Scope 1, 2 and 3 GHG emissions intensity varies markedly by project so aggregated emissions figures may in some instances enable issuers to obfuscate the extent of risk inherent in asset portfolios by hiding high-risk projects in pools of less risky assets. Moreover, aggregated figures also prevent investors from being able to see how companies are working to address emissions risks within their portfolios. Furthermore, the IISB should **mandate project level GHG emissions disclosures that will**



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**enable investors, and importantly, regulators to understand whether a planned project is consistent with keeping warming to below the Paris Agreement targets of below 1.5°celsius.**<sup>45</sup>

### Scope 3 emissions disclosures

Scope 3 emissions disclosures are essential to understanding a company’s total GHG emissions and thus its overall climate risk. CDP’s latest global supply chain analysis showed Scope 3 emissions average 11.4 times greater than a company’s direct emissions.<sup>46</sup> Thus **mandated and verified Scope 3 emissions disclosures are required** to enable investors to determine the climate risks and whether companies are responding accordingly. Additionally, we **support moves by the AASB and ISSB to include disclosures on GHG targets emissions, both intensity and absolute targets.**

### Emissions embedded in reserves

**Fossil fuel companies should disclose projections of emissions embedded in reserves.** Given that fossil fuel reserves represent the overwhelming majority of upstream oil and gas companies’ valuations. Coal, oil and gas companies reserves that help determine their market value and these reserves are also the basis to understanding the potential climate risks of burning these fuels<sup>47</sup>. Standardised projections of GHG emissions-embedded-in-reserves would generate critical forward-looking climate-risk metrics based on existing reserves disclosure requirements.<sup>48</sup> This would be a low burden disclosure and build upon existing practice already undertaken by the companies such as Exxon.

<sup>45</sup> In line with established international norms specified by the EU and Canada, we define “project” as operational activities that are governed by a single contract, license, lease, concession, or similar legal agreement, which form the basis for payment liabilities with a government. See Directive 2013/34/EU, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32013L0034>, Extractive Sector Transparency Measures Act (ESTMA), <https://www.nrcan.gc.ca/our-natural-resources/minerals-mining/extractive-sector-transparency-measures-act/18180>, and SEC, File No. S7-25-15 Disclosure of Payments by Resource Extraction Issuers, pp.71-72 <https://www.sec.gov/rules/final/2016/34-78167.pdf>

<sup>46</sup> CDP, (2020), *Supply Chain Report*, accessed via: <https://www.cdp.net/en/research/global-reports/transparency-to-transformation>;

<sup>47</sup> WRI, (2016), *3 reasons why fossil fuel companies should disclose their reserves*, accessed via: <https://ghgprotocol.org/blog/3-reasons-why-fossil-fuel-companies-should-disclose-their-reserves>

<sup>48</sup> PWYP US, (2022), *PWYP US Comment on proposed SEC climate rule June 2022*,

### Scenario analysis / Price sensitivity analysis

We note the IFRS S2 climate-related disclosures exposure draft proposes “that entities that are unable to conduct climate-related scenario analysis provide an explanation of why this analysis was not conducted.”<sup>49</sup> However, given the significant risks and the widely available scenario analyses for the coal, oil and gas sectors, **we recommend mandating the use, and disclosures, of scenario analysis** for climate related risk.

Scenario analysis helps investors in understanding the robustness of organizations’ strategies and financial plans and in comparing risks and opportunities across organisations.<sup>50</sup> Furthermore, **coal, oil and gas companies must disclose the assumptions** underpinning the scenarios to better inform investors as to how decision were made and what the underlying information and data sets that were used. Scenario analysis helps investors in understanding the robustness of organisations’ strategies and financial plans and in comparing risks and opportunities across organisations.<sup>51</sup>

There is a compelling case for companies to actually disclose these estimates and assumptions in the first place. This information helps investors compare reporting made by companies. Key figures that should always be published by coal, oil and gas companies include:

- The commodity prices, discount rates and estimates about the remaining useful lives of assets used in forecasting revenue and costs for impairment testing.

<sup>49</sup>ISSB, (2022), *[Draft] IFRS S2 Climate-related Disclosures Exposure*, p.19

<sup>50</sup> TCFD, (2017), TCFD-Final Report, p.34

<sup>51</sup> TCFD, (2017), TCFD-Final Report, p.34



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- The discount rates, estimated timelines and the undiscounted estimated costs used to calculate asset retirement obligations.<sup>52</sup>

We welcome the disclosure in B11 that requires companies to undertake a sensitivity analysis of reserves to future price projection scenarios. Undertaking this would allow investors to better ascertain how a company's reserve valuation would perform under different price scenarios. In turn this would enable an assessment on the steadfastness of the reserve valuation. We would further encourage the use of the *Net Zero Emissions by 2050 Scenario*, which sets out a narrow but achievable pathway for the global energy sector to achieve net zero CO2 emissions by 2050, noting that all four of the WEO scenarios should be used.<sup>53</sup>

**The AASB / ISSB should require coal, oil and gas companies to analyse the sensitivity of reserves using the *Net Zero Emissions by 2050 Scenario* in addition to the three other WEO scenarios.**

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<sup>52</sup> PWYP US, (2022), *Public Comment on SEC Proposed Climate Rule June 2022*,

<sup>53</sup> IEA, Understanding WEO Scenarios, <https://www.iea.org/reports/world-energy-model/understanding-weo-scenarios>