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Committee Secretary
Senate Economics References Committee
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Submission to the Senate Economics References Committee Inquiry into carbon risk disclosure

Dear Chair and members of the Inquiry,

ANZ welcomes the opportunity to assist the Senate Economics Reference Committee in its inquiry into carbon risk disclosure. ANZ currently reports on its own operational carbon footprint and directly financed emissions for power generation, the single largest source of Australian carbon emissions. We continue to develop our carbon disclosures and work actively with our customers to support their transition to a low-carbon economy, which includes discussing their approach to managing the risks posed by climate change. This submission outlines our current practice, how we are developing our carbon risk reporting and our related work with customers.

As part of our overall business strategy and approach to sustainability, we seek to address the risks and opportunities associated with climate change. We recognise that disclosure of carbon risks will play an increasingly important role in enabling stakeholders to determine both the level of risk to which a company is exposed and its ability to manage those risks.

We recognise that for reporting to be useful, disclosure frameworks must generate comparable and consistent reporting. At present, there is no single framework being used by companies to report their carbon risks; the Financial Stability Board (FSB) has noted a multitude of reporting frameworks. Rather, carbon risk reporting varies in its scope between companies, making it difficult for stakeholders to undertake peer assessments.

ANZ encourages the key stakeholders to develop a practical disclosure framework that can provide consistent and comparable information. With this goal, ANZ is actively participating in the work of FSB disclosure task force on climate-related risks.[1] We believe that the recommendations, expected early next year, will assist in overcoming the inconsistencies emerging from the current range of regulatory and voluntary reporting requirements. We would encourage the Australian government to look to the FSB outcomes before further developing Australian disclosure requirements.

[1] See FSB proposal for a disclosure task force on climate-related risks, 9 November 2015.

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Current reporting requirements and practices

Within Australia, ANZ complies with several regulatory reporting requirements, and also voluntarily reports a significant amount of information relating to carbon, including:

- ANZ's greenhouse gas emissions and energy consumption in compliance with the *National Greenhouse and Energy Reporting Act* (NGER) – see ANZ global greenhouse gas inventory 2011-2015
- reporting in accordance with Recommendation 7.4 of *the ASX Corporate Governance Principles and Recommendations* – see ANZ 2015 Corporate Governance Statement and ANZ 2015 Annual Report (pages 29-30)
- annual submission to CDP (formerly, the Carbon Disclosure Project) (voluntary) – see ANZ 2015 CDP submission for which we received a disclosure score of 100 out of 100 in 2015 and an award for 'consistently high quality climate change disclosure 2006-2015'
- emissions associated with ANZ's direct funding of electricity generation in our project finance portfolio (reported since 2014) – see ANZ 2015 Corporate Sustainability Review (page 39) and ANZ 2014 Corporate Sustainability Review (page 30) (voluntary)
- ANZ's exposure at default across portfolios – see page 46 ANZ 2015 Investor Discussion Pack - full year results (voluntary)

The Australian Stock Exchange (ASX) and the Australian Securities and Investment Commission (ASIC) have introduced reporting requirements for Australian companies focusing on sustainability risk disclosure.

As noted above, ANZ discloses its most material economic, environmental and social sustainability risks in its Annual Report in accordance with recommendation 7.4 of *the ASX Corporate Governance Principles and Recommendations.* In the 2015 Annual Report, for example, ANZ noted under credit risks, that our customers could be impacted by climate change and changes to laws or regulations, including carbon pricing and climate change adaptation or mitigation policies, and that these risks are factored into our customer evaluations and due diligence processes. We also foreshadowed our strengthened due diligence processes relating to lending to the coal industry (see below).

Changes to the ASX reporting requirements in 2014 supplements ASIC's Regulatory Guide 247. The ASIC guide highlights that effective disclosure in the Operating and Financial Review of the Director's Report should include environmental and sustainability risk disclosures.

ANZ also reports a significant amount of carbon-related information voluntarily – primarily through our annual Corporate Sustainability (CS) Review and our participation in the CDP.[2] In our CS Review, we report against the Global Reporting Initiative, and from this year, will also report in accordance with the Climate Standards Disclosure Board framework.

While continuing to report on our own operational carbon footprint (energy use and emissions), since 2014 our CS Review has disclosed the emissions associated with our direct funding of electricity generation in our project finance portfolio. These disclosures

[2] For an analysis of international non-financial reporting trends see The KPMG Survey of Corporate responsibility Reporting 2015 at http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/kpmg-survey-of-corporate-responsibility-reporting-2015-O-201511.pdf

will continue to evolve as we incorporate additional information informed by consultation with key stakeholders, such as investors and analysts, as well as our own internal risk modelling.

ANZ has also published a 'climate change statement' that sets out how we are addressing the challenge of climate change.

In addition, we are participating in the Portfolio Carbon Initiative, a global initiative that aims to develop a guidance document for banks and asset owners that would become the industry standard for reporting on 'climate performance indicators', including financed emissions. The initiative is led by the United Nations Environment Programme Finance Initiative (UNEP FI) and the World Resources Institute. As a member of UNEP FI, we will continue to participate in this initiative to ensure we contribute to, and are in a position to respond to, the emergence of any new industry reporting standards.

As part of our participation, we have formed the Australian Portfolio Carbon Working Group, with the three other major Australian banks, an informal, collaborative working group recognised by the United Nations Environment Program Finance Initiative (UNEP FI).

How is ANZ using current carbon disclosures to assess risk?

ANZ's customers could be impacted by the physical effects of climate change (through extreme weather events) as well as changes to laws, policies or regulations adopted by governments as they seek to address climate change. By engaging with our customers and assessing publicly available information (including existing carbon risk disclosures) we factor these risks into our customer evaluations and lending due diligence processes.

For example, ANZ is strengthening its due diligence processes for the financing of any new or existing coal mines, the transport of coal, and financing of coal fired power generation. This includes examining customer strategy at the corporate level to lower carbon emissions and support the internationally agreed goal of limiting the increase in global average temperatures to less than 2°C above pre-industrial levels.

We encourage the efforts by our customers to increase transparency including, for example:

- explaining their perspectives on climate change and whether they support government efforts to limit global warming to less than 2 degree above pre-industrial levels[3];
- outlining the actions they are taking to address the shared challenge of climate change, such as investments in lower-carbon manufacturing processes, power generation, transport;
- publishing their resilience to future policy scenarios that may regulate greenhouse gas emissions, eg developing scenarios to 'stress test' their portfolio against a range of possible policy scenarios that may impact their business model and profitability[4];
- disclosing whether they use a forecast of future carbon pricing that will feed into capital expenditure decisions; and
- the ability to diversify their business to invest in more efficient resource use and lower-carbon intensive products or processes, and if they are unable to diversity, what is the cost of future regulation on their business model, will they remain profitable?

[3] For example, see AGL's Greenhouse Gas Policy
[4] For example, see BHP Billiton's Climate Change: Portfolio Analysis

As part of our own due diligence processes, we can also use the information provided by current and potential customers through their NGER reporting, for example, to compare the quality of their disclosures against similar companies.

Carbon risk reporting is evolving, in Australia and internationally and there would be benefit in having an effective common standard for disclosure. It should also be recognised that investors, shareholders, NGOs and other stakeholders are still determining what types of disclosures are of most use to them.

As noted earlier, ANZ supports the work being undertaken by the FSB and keenly awaits the outcomes of its inquiry. The taskforce outcomes to be delivered are comprehensive and appropriately focussed on materiality. We consider that they could provide a more consistent and coherent foundation for reporting and the future development of carbon risk reporting. While we agree with their overall premise that any disclosure recommendations by the taskforce would be voluntary, we consider that major financial institutions would be likely to adopt reasonable standards as soon as practicable.

We would be happy to provide further information to assist the Inquiry.

Yours sincerely

Rob Lomdahl