US rules may pin Australian banks to 'financed emissions'

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Australian banks could be forced to count the emissions of residential mortgagees, car financing and other debtors in their official carbon footprint if proposed climate disclosure rules in the United States are formalised later this year.

Local banks' have in recent years totally or partially excluded their "financed emissions" from their carbon targets, but that stance may be undermined by the US Securities Exchange Commission (SEC), which this week signalled that such emissions should be counted in lenders' "Scope 3" targets.

In draft rules that are expected to eventually apply to the Australian companies that issue debt or have securities listed in the US, the SEC said the Scope 3 emissions reported by financial services companies would "likely include the emissions from companies that the registrant provides debt or equity financing to (financed emissions)".

To date, banks have resisted the push to include their "financed emissions" in their Scope 3 targets; Commonwealth Bank said in its most recent annual report that such emissions would not be counted in its vow to make a 25 per cent cut to Scope 3 emissions by 2030.

National Australia Bank has measured financed emissions for eight sectors of its loan book but said in its most recent annual report that it would not include such emissions in its "carbon neutral position". ANZ has started measuring the "financed emissions" for two sectors of its loan book; commercial property and power generation and said in its annual report it would introduce targets and metrics to reduce such emissions by 2030.

The Australian Bankers Association said it "supports any action of the Council of Financial Regulators to introduce a globally aligned taxonomy that also accounts for the Australian context" but stops short of supporting the move to include financed emissions.

"Many of our members have also committed to, or are examining, reductions in their material Scope 3 emissions associated with bank's supply chains (excluding financed emissions)," the ABA said.

Earlier this month, ASIC chairman Joe Longo and APRA chairman Wayne Byres both stressed the need for international regulators to consider Australia's specific requirements in the development of new standards that govern disclosure.

However New Zealand, where all of the big four banks have a retail banking presence, has already moved to include financed emissions in its mandated climate disclosures that are set to become effective in December.

"Among financial institutions, scope 3 emissions account for an even higher share of overall emissions, with portfolio emissions on average over 700 times higher than direct emissions," said April Mackenzie from the NZ External Reporting Board.

"For financial institutions included in the regime, this will mean measuring the financed emissions of a portfolio. This enables financial institutions to set targets, inform actions and disclose progress. Understanding these emissions is crucial for portfolio alignment and decarbonisation.

"In order to improve transparency and consistency of disclosures for users, our proposal includes a requirement for gross emissions and scope 3 value chain emissions to be reported."

KPMG's climate change partner Adrian King said the SEC had left banks some flexibility around which methodology to use when calculating Scope 3 emissions and while the big four banks have millions of residential mortgage customers, he said it should not be overly difficult to estimate the carbon

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