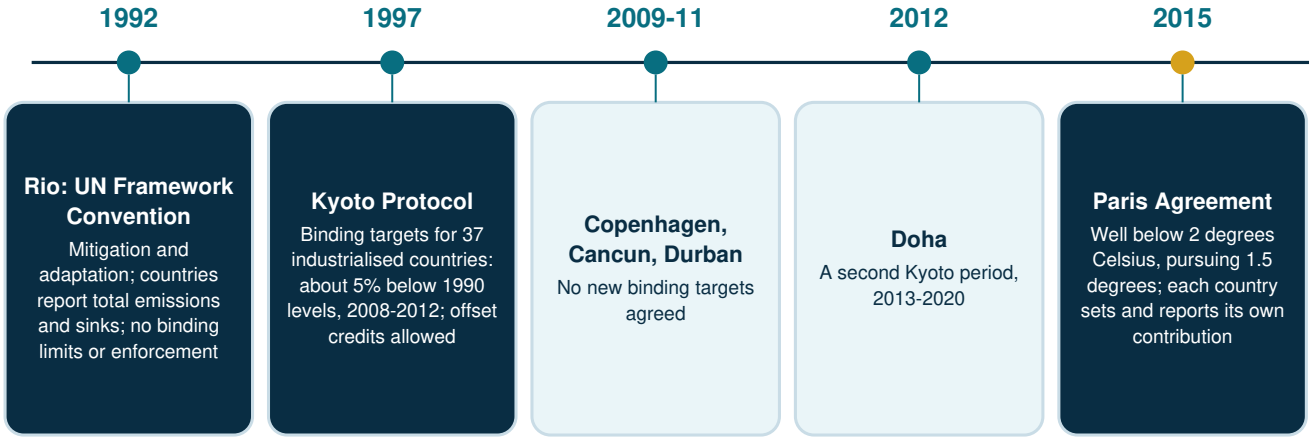
Climate change reporting

MODULE 5 | PART F.1 | STUDENT COMPANION

Greenhouse gases let the sun's energy warm the Earth and trap some of the heat. Human activity, mainly burning fossil fuels and clearing land, is increasing their concentration, and the climate is changing. Climate change is an externality that conventional accounting leaves out, because of how the elements are defined and the entity assumption.

The international response



Trust in Paris depends on accurate national emissions estimates, tracked and independently checked: work accountants are well placed to support.

Personal social responsibility: individuals also choose how much energy they use, how they travel, how much waste they create and what they buy. Organisations largely respond to consumer demand, so responsibility is shared.

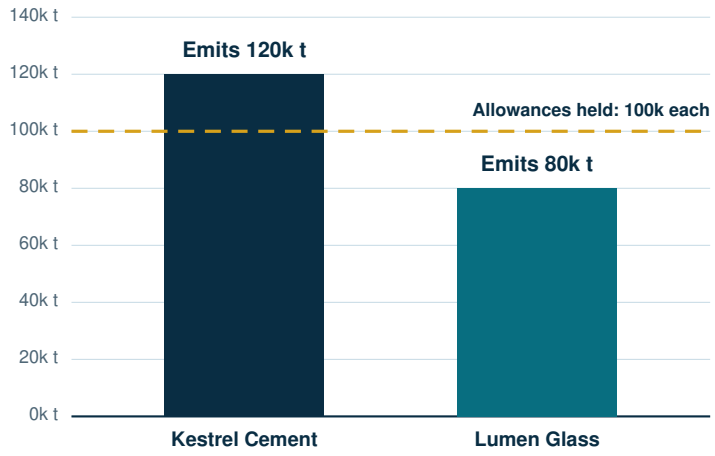
Putting a price on carbon

Governments price carbon through **carbon taxes** or **cap-and-trade** (emissions trading) schemes. A price per tonne internalises the cost of emissions, so products are more fully costed. Carbon-intensive producers face higher costs, which is why carbon pricing is contentious, especially if other countries do not price carbon.

Cap-and-trade and accounting for emissions

MODULE 5 | PART F.1 | MECHANICS AND RULES

Stage	What happens
Cap	The government sets the maximum total emissions for covered companies over a period, then issues allowances equal to the cap, given out (often based on past emissions) or auctioned. In the EU scheme one allowance = one tonne of CO2-e. The cap falls over time.
Trade	Companies compare actual emissions with allowances held. Those below can sell or bank the surplus; those above must buy more, directly, through a broker or on an exchange.



Kestrel: over its allowances

Buys 20,000 allowances at $40 = $800,000, or cuts emissions if that costs less than $40 a tonne

Lumen: under its allowances

Sells 20,000 spare allowances, or banks them for a later year

The cap fixes the total; trading lets each company find its cheapest way to cut. Kestrel and Lumen are imagined.

- **Accounting for emissions** uses three scopes: Scope 1 direct, Scope 2 purchased energy, Scope 3 value chain. Offsets, such as carbon absorbed by a managed forest, may also be accounted for.
- **In Australia,** large emitters over the thresholds must report their Scope 1 and 2 emissions under the NGER Act. Smaller companies have not been directly regulated in how they account for emissions or offsets, but the Australian Consumer Law prohibits misleading or deceptive claims, including about carbon neutrality and offsets.
- **Voluntary reporters** most often use the Greenhouse Gas Protocol.

Regulators, standards and greenwashing

MODULE 5 | PART F.1 | GOVERNANCE AND CASE NOTES

ASIC's four recommendations (2018)
1 Consider climate risk, probing and proactive
2 Strong, effective corporate governance
3 Comply with the law: material business risks in the operating and financial review
4 Disclose useful, specific information

Climate standard: four areas to disclose	
1	**Governance** How climate risks and opportunities are overseen
2	**Strategy** How they are managed
3	**Risk management** How they are identified, assessed and monitored
4	**Metrics and targets** Performance and progress towards targets

Greenwashing

Greenwashing makes a product or company sound more environmentally friendly than it is. ASIC's guidance for sustainability-related investment products: be **true to label**, explain **vague terms**, and make **screening criteria** clear.

Case note - Active Super: on 18 March 2025 the Federal Court ordered the superannuation fund to pay a $10.5 million penalty. It had told members it had eliminated investments in areas such as gambling, coal mining, oil tar sands and Russian companies, yet from February 2021 to June 2023 it held such investments, directly or through other funds. The Court had found the conduct misleading in June 2024. It was ASIC's third greenwashing court outcome.

Sources: ASIC media release 25-042MR (18 March 2025); ASIC Report 593 (2018); IFRS S2.

Practice questions

MODULE 5 | PART F.1 | TRY THESE BEFORE THE WORKED ANSWERS

Question 1 - Allowances

Imagine three companies in a cap-and-trade scheme. Each holds **50,000 allowances** (one tonne each), and allowances trade at **$35**. **Company X** emits 62,000 tonnes, **Company Y** emits 47,000 tonnes and **Company Z** emits 50,000 tonnes.

(a) Does each company buy or sell, how many allowances, and what does it cost or earn? (b) Company X could cut up to 8,000 tonnes at $28 a tonne. Should it, and what would its total cost be?

Question 2 - Spot the greenwash

Claim	Why it is a risk, and a fix
(a) A courier advertises "100% carbon neutral delivery", but offsets only the fuel used by its own vans, not its warehouses' electricity or its subcontractors' trucks.	
(b) A cleaning product carries the label "eco-friendly" with no explanation.	
(c) A clothing brand calls its range "ocean-safe" because it uses recycled bottles, but the garments still shed plastic microfibres when washed.	

All companies and claims are imagined teaching examples.

Worked answers

MODULE 5 | PART F.1 | WORKED ANSWERS - ATTEMPT THE QUESTIONS FIRST

Question 1 - Allowances

Company	Position	Action	Cash effect
X	62,000 - 50,000 = 12,000 tonnes over	Buy 12,000 allowances	Costs 12,000 x $35 = $420,000
Y	50,000 - 47,000 = 3,000 tonnes under	Sell (or bank) 3,000 allowances	Earns 3,000 x $35 = $105,000 if sold
Z	Exactly at 50,000	No trade needed	Nil

(b) Cutting costs $28 a tonne, less than the $35 allowance price, so X should cut all 8,000 tonnes: 8,000 x $28 = $224,000. It still needs 4,000 allowances: 4,000 x $35 = $140,000. Total $364,000, saving $56,000 compared with buying all 12,000 allowances.

Question 2 - Spot the greenwash

Claim	Why it is a risk	A fix
(a)	Overstates coverage: most emissions, including Scope 2 and Scope 3, are left out	State exactly which emissions are offset, with what offsets, or extend coverage before claiming 100%
(b)	Vague term with no explanation or evidence	Make a specific, verifiable claim, such as the share of recycled or biodegradable content, with certification
(c)	A broad environmental claim the product cannot support	Limit the claim to what is true, such as recycled content, and avoid implying the product is harmless

Remember the Australian Consumer Law: misleading or deceptive environmental claims are prohibited, whether or not a company is required to report its emissions.