

Response to AUASB consultation on proposed ISSA5000

CarbonPump Pty Ltd ABN

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This document

CarbonPump Pty Ltd has provided this document as a contribution to AUASB consultation on sustainability standards in Australia.

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About CarbonPump Pty Ltd

CarbonPump Pty Ltd is a global scale climate action method developer and operator of the global & proprietary CADR registry of climate action offset assets.

Established in 2020, CarbonPump is a privately held Australian company.

CarbonPump developed:

1. Framework for climate action methodology development,
2. Climate action methods, including the CarbonPump Carbon Farming method.
3. Climate Action Digital Receipts (CADR)[™] - commodity based digital assets.
4. Developer & Operator of the CADR Registry[™]
5. CADR Pledges[™] - in independent registry of climate pledges
6. CADR Legacy[™] - a record or long-term organisational climate action

Key objectives of the company have been:

- A. Enable organisations to substantiate sustainability claims.
- B. Enable agriculture to engage in climate action.

The founders of CarbonPump are experts in sustainable agriculture and climate action methods leveraging experience in the Australian market and research of international markets informed the development of CarbonPump innovations.

Commentary

CarbonPump Pty Ltd is not an accounting or legal services body. The company has instead agricultural and climate action methodology credentials. Our responses are therefore not technical to level suggested in the consultation paper, and should instead be considered as an external stakeholder contribution.

Further CarbonPump is responding from a perspective of emissions offsets as part of the sustainability disclosures of an entity. Specifically, the entity will need to disclose risks and opportunities which will incorporate emissions, and where appropriate, emissions offsets.

The risks associated with emissions offsets must therefore also be disclosed consistent with mandatory disclosure proposed. We welcome this requirement. In our view the emissions offsets (or 'Carbon Credits or Voluntary Carbon Credit industry) industry is rampant with undisclosed risks related to forward-looking statements and claims of climate action.

Further undisclosed risks for both emitting entities and the underlying climate action projects are largely based on forward-looking statements which rarely survive the claimed future substance. E.g. An Australian Carbon Credit Unit (ACCU) claims to represent 100 years of climate action, however this in fact is a promise of future climate action which has not yet occurred. The emitter that then uses the ACCU to offset emissions is then claiming the full (promised) substance of the offset against current year emissions yet it cannot be reasonably stated that the substance of the ACCU will be delivered meaning that the Emitter is making a false representation of the offset for compliance to Australian Government schemes.

Recommendations

1. Review the evidence of actual climate action represented by Australian Carbon Credit Units when issued. Particularly ACCUs issued in the Agricultural or land based methods.
2. CarbonPump has established a commercially driven climate action methodology. This differs from the 'compliance market' scheme issued by DCCEE, and the philanthropic 'Voluntary Carbon Market'.

- a. The compliance market (ACCU Scheme) is lacking in rigour and application but is endorsed by the Australian Government and underwritten by Australian tax payers.
 - b. The Voluntary Carbon Market is a philanthropic system less concerned with evidence of completed action but more focused on promises of future action.
 - c. CarbonPump's Climate Action Digital Receipts (CADRs) are an evidence based system to assessing completed climate action and related claims.
3. Below are a selection of our guidance materials for entities wishing to support sustainability claims with valid substance.
4. CarbonPump recommends recognition of Emissions Offsets in financial statements as falling into two categories:
 - a. Emissions Offset derivatives
 - i. This is an emissions offset that is subject to forward looking risks related to the intrinsic value of the offset.
 - ii. Underlying substance of the offset is subject to ongoing performance of the stated climate action activity for a defined period of time.
 - iii. Risks associated with the successful completion of the claimed offset must be disclosed.
 - b. Emissions Offset **ASSETS**
 - i. This is an emissions offset that is **NOT** subject to forward looking risks related to the intrinsic value of the offset.
 - ii. Underlying substance of the offset is **COMPLETED** climate action.
 - iii. Nil risk associated with the successful completion of the claimed action.
5. CarbonPump recommends setting emissions of an entity as an Emissions Liability on the balance sheet.
 - a. Numerous scientific papers argue the finite detail of this subject but it is fundamentally true that greenhouse gas emissions are essentially permanent. Once emitted they will remain in the atmosphere for an extended period of time with variable impact on global warming over that period.
 - b. In the absence of any reliable tenure of emissions in the atmosphere, 1000years should be used. Any number smaller than this would misrepresent the reality and risk an over-estimation of the impact of offsets and an under-estimation of emissions impact on the environment.

- c. The accumulating emissions liability of an entity is appropriate in the context of the financial statement and the environmental impact of the entity.
 - d. Emissions should not be simply extinguished by any means on the P&L.
- 6. CarbonPump recommends setting Emissions Offsets as offset assets on the entity balance sheet.
 - a. Emissions Offsets must be declared as either assets or derivatives.
 - b. Where the Emissions Offset is an asset then the full value of the offset can be applied against the Emissions Liability on the balance sheet.
 - c. Where the Emissions Offset is a derivative, then only the value of the completed offset at the time of the financial statement can be offset against the emissions liability.
 - d. An Emissions Offset Asset is a permanent offset, and can therefore be equitably used to balance an Emissions liability.
- 7. CarbonPump recommends reliance upon Emissions Liabilities and Emissions Offsets on the balance sheet as an audited statement of an entity's sustainability disclosure, and therefore is the only audited statement of emissions balance (neutrality or any other similar statement pertaining to the emissions and or emissions offsets of the entity).



CARBONPUMP

Climate Action Digital Receipt (CADR) Definition

*The Inflection point from the legacy 'Carbon Credit' market was the point at which shareholder value was impacted by sustainability and climate related disclosures. From this time, the market moved from **integrity-based** (philanthropic) climate action to **accountable, fact driven** climate action.*

- A **Carbon Offset** is a unit of greenhouse gas that is removed from the atmosphere or not emitted to the atmosphere due to emission avoidance or preservation. Carbon offsets should be defined by mass – typically tonnes CO_{2e} and the period the offset is valid.
- Both CADRs & Carbon Credits are **digital assets and carbon offsets**.
- An **offset asset** is a commonly used term in International Accounting standards (IAS 32) referring to an asset which offsets a liability.

	CADR™ (Climate Action Digital Receipt)		'Carbon Credit'	
	Sustainability claim	Regulatory	Philanthropy	Regulatory
Valid Use	Global	Jurisdiction	Global	Jurisdiction
Application	Accountability	Accountability	Philanthropy	Compliance
Framework	Fact	Deemed	Incomplete	Deemed
Substantiation of claim	Nil	Nil	Yes	Yes
Risk (that climate action has NOT occurred)	verified ⁱ	verified	Validated ⁱⁱ	Validated
Audit	Fixed Value	Fixed Value	Value Risk	Value Risk
Intrinsic Value (practical & legal)	No	No	No	Yes & No (selected)
Regulated (Is it a Financial Product?)	Yes	Yes	No	No
Offset Asset ⁱⁱⁱ (against emissions)	Yes	Yes	No	No
Valid Inventory Asset ^{iv}	Asset	Asset	Derivative	Derivative
Asset Class	Completed	Completed	Projected	Projected
Climate action (Substance of the Offset)				

ⁱ **Verified** refers to 3rd party retrospective confirmation that the climate action is completed.

ⁱⁱ **Validated** refers to 3rd party confirmation that the action is taking place as claimed.

ⁱⁱⁱ **IAS 32** refers to International Accounting Standards 32 – Assets & offset assets.

^{iv} **IAS 2** refers to International Accounting Standards 2 - Inventories



CarbonPump enables organisations & individuals substantiate sustainability claims.

	CADR (Climate Action Digital Receipt)	Carbon Credit
Financial definition	Offset <u>asset</u> substance based digital commodity (digital representation of a physical thing)	Financial derivative based on a promise of future actions.
Issued	At completion of the underlying climate action. (Retrospective)	At commencement of the underlying climate action. (prospective)
Risk	Less Risk No future practical, <u>financial</u> or legal risks for farmer. Clear disclosure to the buyer resolving interpretation and product risks.	Many Risks Many risks associated with the completion and audit of the project including complete failure. Undisclosed risks for farmer and the buyer.
Product Disclosure Statement	Yes	No
Permanent Offset	Yes World's first permanent offset. CADR is a valid offset asset, immutable in perpetuity.	No Valid only for the period under project contract. Extinguished at the end of the project contract.
Climate action funding for	Now Concentrates investment to current action, now.	Next 100 years Amortised investment over 100 years (or 25yr discounted)
Real & <u>completed</u> climate action	Yes Completed and audited prior to CADR issuance.	No A carbon credit does not complete its associated climate action claim until the end of the 100year period (or discounted shorter period), and in fact, may not ever substantiate this claim within the contracted period.
Audit	Is audited at completion of the project for project outcomes.	Includes significant assumptions of project performance during unaudited periods.
Supports Sustainability claims.	Yes Factual substantiation of sustainability-related financial disclosures	No A derivative, substantiated by a promise of future action
Climate Action completed when issued	Yes	No
Deemed to satisfy Australian <u>SafeGuard</u> Mechanism	No	ACCU's only (Australian Carbon Credit Units)





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CarbonPump Regulatory Framework

(Global)

IFRS Sustainability Standards
International Financial Reporting Standards

(Global)

GHG Protocol

(Global)

IAS
International Accounting Standards

(Global)

ISO 14064 & 14065
International Standards Organisation

(Global)

CarbonPump Carbon Farming v1.1
CarbonPump Methodologies

(Verification)

Independent Audit
Southern Cross Certified

(Measurement)

Sampling & Analysis
Rigorous conservative evidence
based measurement