

# Guide for boards and management on the path to net zero

April 2022



# Foreword: *Guide for boards and management on the path to net zero*

Long discussed, but slow to act. That seems to be the Australian way so far on climate change.

But given we now have daily reminders of the detrimental impact climate change is having on our globe, there is simply no further excuse for delays in tackling this increasingly imperative issue.

Extreme weather events are no longer just the domain of nightly news reels depicting distant lands. They are happening to us, in our suburbs, with severe fires and floods impacting our friends and family. Organisations are starting to feel the tremors of climate change, but many still do not see it as an immediate threat.

If it's not already, climate and climate risk management need to move to front of mind for every organisation — quickly. This is not based merely on ideology, but on the undeniable link to risk management and our responsibilities as custodians of our organisations.

Governance Institute of Australia's *Guide for boards and management on the path to net zero* will assist with this mindset shift.

Based on the findings from a specially convened Governance Institute working group as well as a review of a range of expert guidance, the Guide is designed to assist all organisations — large and small and across sectors — to answer the question what should my organisation do about climate change?

It responds to recent climate policy developments as well as the significant shifts in expectations on organisations to act on the issue, including disclosure of climate risk.

With board buy-in the first step in setting up effective climate governance, we urge you to take this guide to your senior managers and directors.



**Organisations are starting to feel the tremors of climate change, but many still do not see it as an immediate threat.**

Use it to kick-start a review of how your organisation's priorities and risks may be impacted by climate change — because they will be impacted.

It's a complex and uncertain area, but with swift action, your organisation will be best placed for what is around the corner — both the risks and opportunities.

Our advice is to act is now. There can be no further delay on this issue.



A handwritten signature in black ink.

Megan Motto  
CEO

Governance Institute of Australia

# About Governance Institute of Australia



A national membership association, Governance Institute of Australia advocates for a community of more than 43,000 governance and risk management professionals, equipping our members with the tools to drive better governance within their organisation. We tailor our resources for members in the listed, unlisted and not-for-profit sectors, and ensure our member's voice is heard loudly. As the only Australian provider of chartered governance accreditation, we offer a range of short courses, certificates and postgraduate study to help further the knowledge and education of the fast-growing governance and risk management profession. We run a strong program of thought leadership, research projects and news publications and draw upon our membership of the Chartered Governance Institute to monitor emerging global trends and challenges to ensure our members are prepared. Our members know that governance is at the core of every organisation — and in these tumultuous times, that good governance is more important than ever before.

## Contents

### **01** Acronyms / Glossary

### **02** Introduction

### **04** Orchestrating the climate change conversation

- Make the business case
- Understanding stakeholder expectations
- Activating leadership
- Build organisational culture

### **07** Planning for net zero

- Conceptualise a net zero world
- Create a transition plan
- Capture opportunities
- Build the business case for emerging technologies
- Managing the short-term negative impacts of transition

### **14** Working with stakeholders

Understand the regulatory and legal landscape

1. Climate litigation
2. Greenwashing risks

Selecting a reporting framework  
Preparing and communicate plans

### **19** Conclusion

### **20** Governance Institute Working Group members

### **21** About Finity Consulting

# Acronyms

**ASIC** Australian Securities & Investments Commission  
**APRA** Australian Prudential Regulation Authority  
**CCS** Carbon capture and storage  
**CDP** Carbon disclosure project  
**CDSB** Climate Disclosure Standards Board  
**CFO** Chief financial officer  
**COP26** Conference of the Parties  
**ESG** Environmental, Social, and Governance  
**EV** Electric vehicles  
**GRI** Global reporting initiative

**IFRS** International Financial Reporting Standards  
**IIRC** International Integrated Reporting Council  
**IPCC** Intergovernmental Panel on Climate Change  
**NFPs** Not for profits  
**SASB** Sustainability Accounting Standards Board  
**SBTi** Science Based Target Initiative  
**SMEs** small and medium-sized enterprises  
**TCFD** Task Force on Climate-related Financial Disclosures  
**UNEP** United Nations Environmental Programme

# Glossary

**Carbon capture and storage (CCS):** the process of capturing and storing carbon dioxide before it is released into the atmosphere.

**Carbon disclosure project (CDP) framework:** reporting framework to disclose environmental information (on climate change, water security and deforestation) to stakeholders

**Climate Disclosure Standards Board (CDSB) framework:** framework for reporting environment- and social-related information in mainstream financial reports for the benefit of investors

**Climate scenario analysis:** an iterative process through which organisations assesses their resilience (potential risks and uncertainties) in multiple plausible future climate scenarios. Climate scenario analysis is a recommendation of the TCFD.

**COP26:** the 26<sup>th</sup> United Nations Climate Change Conference held in November 2021.

**Emission targets (“target”):** a goal to reduce emissions to a given extent within a certain timeframe. Targets can be ‘science based’ meaning they provide a clearly defined pathway to reduce emissions in line with the Paris agreement goal.

**Global reporting initiative (GRI) standards:** standards for sustainability reporting which allow organisations to identify, gather and report economic, environmental and social impacts in a comparability manner. The framework is aimed at reflecting the perspective of a diverse range of stakeholders

**Greenwashing:** is a misrepresentation of the sustainability credentials of a company, or of its products or services.<sup>1</sup>

**Intergovernmental Panel on Climate Change:** the United Nations body for assessing the science related to climate change

**International Integrated Reporting <IR> Framework:** framework that governs the overall content of an integrated report. The framework identifies information to include in an integrated report which materially affect the organisations ability to create value over time.

**Net zero emissions:** when anthropogenic emissions of greenhouse gases to the atmosphere are balanced by anthropogenic removals over a specified period.

**Net zero world:** a world in which the 1.5-degree global warming target in the Paris Agreement is met. This entails net zero emissions being met by 2050

**Paris Agreement:** the legally binding treaty adopted in 2015 at COP21 under the United Nations Framework Convention on Climate Change. Adopted by 196 Parties, the Paris Agreement’s central aim to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels.

**Sustainability Accounting Standards Board (SASB) framework:** accounting standards for the disclosure of financially material sustainability information by companies to their investors.

**Task Force on Climate-related Financial Disclosures (TCFD):** a taskforce created by the Financial Stability Board to develop consistent climate related financial disclosures. In 2017, the TCFD released recommendations. Recommendations are based on four key pillars, governance, strategy, risk management, and metrics and targets

<sup>1</sup> [www.minterellison.com/-/media/Minter-Ellison/Files/Article-PDFs/MinterEllison-Spotlight-on-Greenwashing.ashx](http://www.minterellison.com/-/media/Minter-Ellison/Files/Article-PDFs/MinterEllison-Spotlight-on-Greenwashing.ashx)

# 1. Introduction

Climate change is a rapidly evolving challenge for boards and management in all sectors. As the impact of rising temperatures start to become apparent, there are increasing calls for rapid emission cuts, and in response the political, legal, regulatory, investment, and business environments are evolving at an increasing pace. For Governance Institute members who are balancing their organisation's governance arrangements with competing short-term priorities such as COVID-19, supply chain disruption, and war in Europe, the burning question is what should my organisation do about climate change?

This Guide, an update of Governance Institute's 2020 report<sup>2</sup> *Climate change risk disclosure*, is intended to provide practical actionable guidance on what organisations should do to answer this question. Each organisation's challenges and solutions will depend on its resources, sector, and maturity, and this Guide includes case studies to illustrate specific circumstances. Based on the actual experience of a wide range of Governance Institute members, as well as a review of the range of expert guidance, this Guide aims to provide clarity in a complex and rapidly evolving environment.

## The changing environment

The 2020 report provided a detailed review of the existing climate change landscape and reporting requirements with a focus on the TCFD'S 2017 recommendations. Key developments in 2021/2022 have resulted in further shifts in expectations on both climate disclosure and climate action, as outlined in Box 1 on the right.

## Box 1: Key climate developments in 2021/22

### • IPCC 6th Assessment Report: Working Group 1 The Physical Science Basis (August 2021)

The IPCC Working Group 1 report concluded that it was unequivocal that humans have warmed the planet and that this has resulted in more extreme weather.<sup>3</sup> The report finds that limiting global warming to 1.5°C will require rapid and far-reaching emissions reductions in land use, energy, industry, buildings, transport and cities.

### • Australian Securities and Investments Commission (ASIC) (August 2021): The market regulator committed to targeting misleading claims on financial products claiming to reduce emissions or have other sustainability related goals as part of their 2021-2025 corporate plan.<sup>4</sup>

### • Australian Prudential Regulation Authority (APRA), (September 2021): The financial regulator commenced its climate vulnerability assessment on the five largest Australian banks to help assess the vulnerability of institutions to climate related risks.<sup>5</sup>

### • Australia's long term emission reduction plan (October 2021): The Australian Government's plan to reach net zero emissions by 2050 looks to accelerate investment in low carbon technologies in order to drive down costs and increase their adoption.<sup>6</sup>

### • The 2021 UN Climate Change Conference (COP26) (November 2021): The key outcomes of the international climate conference included the signing of the Glasgow Climate Pact which calls for countries to strengthen climate pledges by the end of 2022, the phase down of coal, and doubling climate adaptation finance.<sup>7</sup> There was also agreement on the Paris Agreement Rulebook, which included regulations for carbon markets and for countries to report on their emission reductions. Additional sectoral commitments were made for forests, transport and finance.

### • IPCC 6<sup>th</sup> Assessment Report: Working Group 2 Impacts, Adaptation and Vulnerability (March 2022)

The IPCC Working Group 2 report finds that climate change has already caused substantial damage and increasingly irreversible losses across ecosystems and that if warming exceeds 1.5°C, both human and natural systems will face additional severe risks some of which are irreversible.<sup>8</sup> It warns that there continue to be gaps between current levels of adoption and the level required to reduce climate risks.

<sup>2</sup> [www.governanceinstitute.com.au/advocacy/thought-leadership/climate-change-risk-disclosure](http://www.governanceinstitute.com.au/advocacy/thought-leadership/climate-change-risk-disclosure)

<sup>3</sup> [IPCC, AR6 Climate Change 2021: The Physical Science Basis, 2021.](#)

<sup>4</sup> [ASIC, 21-225MR ASIC publishes Corporate Plan 2021-25, Aug 2021.](#)

<sup>5</sup> [APRA, Information Paper Climate Vulnerability Assessment, 2021.](#)

<sup>6</sup> [Department of Industry, Science, Energy and Resources, 'Australia's Long-Term Emissions Reduction Plan', 2021.](#)

<sup>7</sup> [Finity, Summary of COP26 outcomes, 2021.](#)

<sup>8</sup> [IPCC, AR6 Climate Change 2022: Impacts, Adaptation and Vulnerability.](#)





As climate moves further into the spotlight in 2022, organisations in all sectors must navigate evolving reporting requirements, stakeholder expectations, and the transition to a net zero economy. While each organisation will have its own climate journey, some may face the same challenges and can share valuable lessons learned.

In producing this Guide, the Governance Institute consulted its members on their climate journey to date through workshops, surveys and interviews. A number of members generously shared their accumulated wisdom on both the challenges faced and examples of success. This Guide describes some of the common themes shared by members as well as expert guidance available.

The Guide is organised into three chapters that together address the question of what to do about climate change:

**Orchestrating the climate change conversation** — How do you embed climate into the core of an organisation?

**Planning for net zero** — How do you deal with the challenges of transitioning to net zero emissions?

**Working with stakeholders** — How to ensure your reporting framework meets stakeholder expectations on climate disclosure and climate action, and does not fall foul of increasing legal and regulatory requirements?

## 2. Orchestrating the climate change conversation

Organisations across all sectors are likely to face risks and opportunities from climate change, although the timing, magnitude, and type of risks and opportunities will vary. While climate risk for organisations can be managed similarly to other business risks, uncertainty about climate impacts combined with the incorrect perception that it is an issue for the future rather than action today makes climate risk more difficult to effectively incorporate within the governance of an organisation.

For some organisations, this uncertainty can hinder the process of allocating significant resources and planning towards climate change. Larger and more immediate challenges can quickly divert the focus of the board, delaying climate action. This is especially evident in organisations that do not have an obvious or direct exposure to climate change. And yet, with [Deloitte Access Economics](#) estimating that unchecked climate change will reduce Australia's GDP by 3% p.a. every year for the next 50 years, organisations must clearly start by assuming they will be affected, even if only indirectly.<sup>9</sup>

### Make the business case

#### Mapping climate impacts on the organisation

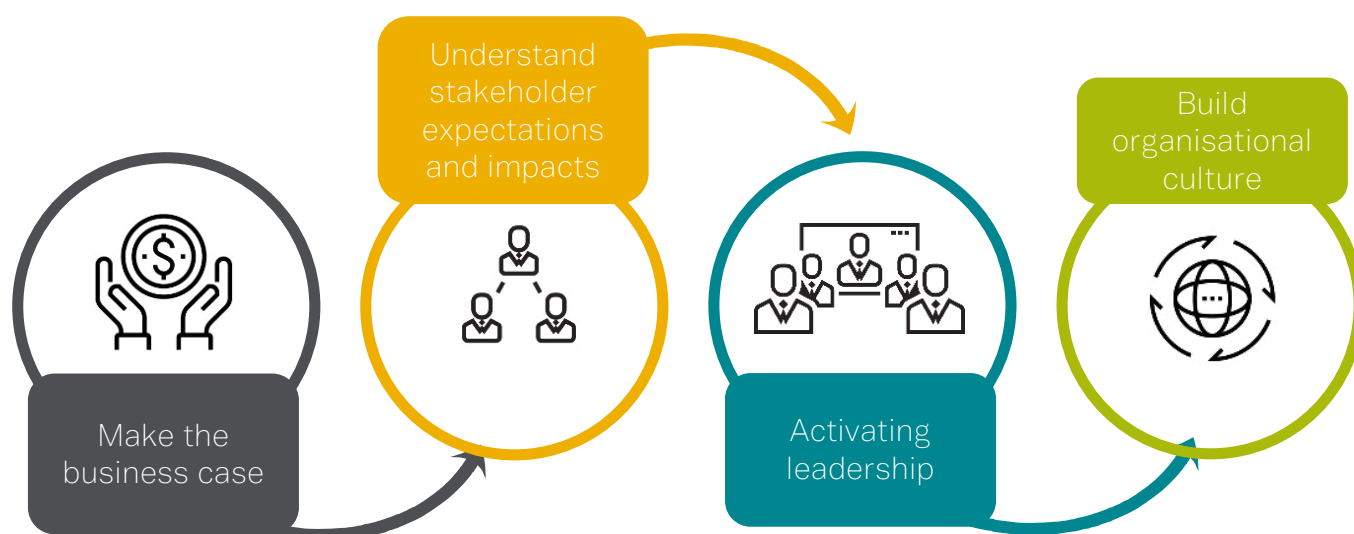
Members provided many examples where appeals to corporate social responsibility alone were ineffective in driving engagement on climate. While climate change will have significant social impacts, effective engagement requires a clear understanding of the impact of climate change on the organisation's business objectives — both risks and opportunities. For organisations with a commercial purpose this includes the financial impact of climate change.

Reaching this understanding requires a conversation with internal stakeholders and external experts on the organisation's strategy and drivers of value, and how climate change presents new risks and opportunities for creating value. Much of this will depend on the specifics of the organisation's structure, purpose and the sectors it operates in, but some areas common to most organisations include the impact on the organisation's customer needs, supply chain, and assets.

#### Mapping the organisation's impact on climate

This understanding should extend beyond how climate change affects the organisation, and consider how the organisation's business impacts the environment, as this could influence the organisation's social license to operate or exposure to reputational risks. For example, understanding how the company generates emissions through its operations and supply chain will provide a useful perspective on the organisation's exposure to expectations about emissions reduction, as well as identifying priority areas for a net zero strategy, as discussed in the next chapter.

### The challenge: The climate change conversation



<sup>9</sup> [Deloitte Access Economics, A new choice Australia's climate for growth, 2020.](#)



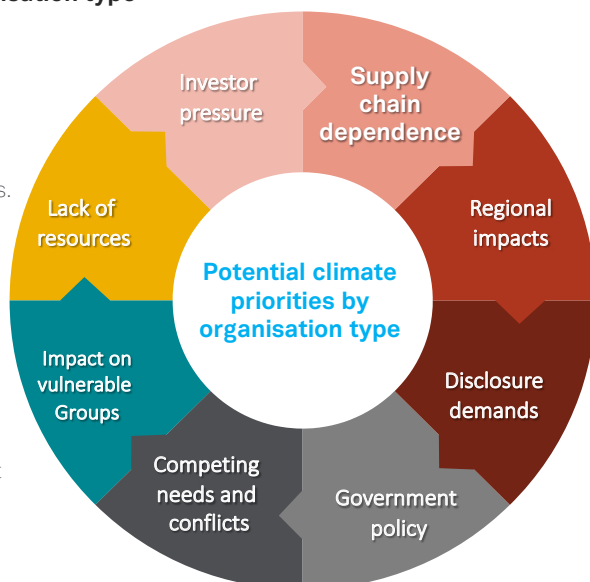
## Climate priorities by organisation type

### SMEs

- Access to resources to manage climate change or invest in new opportunities.

### NFPs

Understanding differential impact of climate on vulnerable groups and adapting operations to meet their evolving needs.



### Listed Companies

- Focused on operational impacts which disrupt service delivery and costs
- Meeting stakeholder expectations through disclosure and climate action

### Public Sector

- Leveraging government policy to assist climate commitments and plans.
- Balancing competing needs through climate related decision making
- Potential conflicts between different departments, e.g. energy vs environment.



**‘Climate impacts are more far reaching than may be apparent.’**

Senior Governance Professional, Listed company

## Understanding stakeholder expectations

### Map out climate impacts on stakeholders’ expectations and priorities

The next step is to understand how the identified impacts of climate change on the business in turn impact each stakeholder’s expectations and priorities. For example, investors may be concerned about the potential negative impact of climate change on their investment returns. Individual customers, concerned by the organisation’s level of emissions, could shift their preferences to companies with lower emissions. Considering an employee perspective can also add value, as strong ESG credentials can promote both talent acquisition and employee retention.<sup>10</sup>

Regulator’s expectations both nationally and globally should also be considered, both in terms of current activity and signals for the future. For example, like many other financial regulators around the globe, APRA has been taking a measured and incremental approach to climate change over a number of years, starting with broad surveys of industry practice, and moving towards detailed stress tests on the financial system. It may also be useful to consider the expectations of activists.

### Leverage existing communication channels with stakeholders

Organisations can leverage existing tools such as surveys, investor engagements, and materiality analyses to develop a deeper view of the impact of climate change on stakeholders. Where stakeholder expectations are still unclear or communication channels are unavailable, organisations can talk to and

review the actions of peers within the local or global industry as a useful barometer of stakeholder expectations. Some organisations have specifically formed industry groups to collaborate on climate change, such as the Investors Group on Climate Change or others have formed working groups to do the same.<sup>11</sup> There is no reason to go it alone.

### Monitor and report expectations on a regular basis

Once there is a shared understanding of how climate influences stakeholders’ expectations, best practice is to actively monitor and report these expectations to the board. Having appropriate monitoring in place allows a company to identify shifts in customer, market, investor and regulatory expectations.

### Activating leadership

Having developed this understanding of the impact of climate on the organisation’s business, the next step is to obtain leadership support for assessing, managing, and reporting on climate change, at the highest level of the organisation, such as the board of directors.

### Obtain executive sponsorship

Obtaining executive sponsorship at the start of the climate journey is critical for success. There is increasing pressure to both act on climate and disclose climate related financial risks and having a board member or senior executive lead the climate initiative not only validates the relevance of climate change to the organisation’s balance sheet. It also allows an organisation to leverage existing communication channels between the board, management and business units, as well as investors and other external stakeholders.

<sup>10</sup> [Anthesis Group, ‘Research Reveals Sustainability Is Vital for Employee Attraction and Retention’, 2021.](#)

<sup>11</sup> Such as the Business Council of Australia and the Australian Industry Group.



## The role of the executive in driving climate action



### **Make climate a board priority**

Demonstrate the business case for climate action and reporting, taking into account impact on business objectives and stakeholder expectations and priorities



### **Communicate a robust climate narrative**

Explain how the organisation's climate strategy will deliver value



### **Ensure accountability**

Measure and track performance against strategic objectives, using robust financial and non-financial metrics and targets



### **Use climate change to drive innovation**

Taking a deeper view of customer needs, supply chain dependencies, the organisation's assets, and the longer term economic environment, to stimulate new opportunities to create value

## **Demonstrate climate impacts on the organisation**

The better the senior leadership team understands the impact of climate change on the organisation, the more likely they are to actively develop and drive any strategic change required. Acknowledging the political and emotional level of the historical climate debate, and moving on to provide trusted sources of reliable information, is vital to driving engagement. Examples include:

- Engagement sessions — formal and informal training by internal or external experts on the scientific and economic impacts of climate change
- Site visits or presentations with industry experts, corporations, NGOs, academics, in Australia and globally
- The latest research on climate impacts and regulatory developments within major markets
- Participation in industry groups, conferences, and public forums to share knowledge and discuss future potential developments related to climate change

While the priority will be to activate top-down leadership, the same approach can be applied across the organisation to ensure employees understand how their work contributes to the organisation's overall climate strategy.

### **Map out benefits to the organisation**

In the long run, many organisations have identified multiple benefits from building climate change considerations into an organisation's strategy including increased talent acquisition and employee retention, improved brand reputation and

corresponding sales, more efficient performance and reduced operating expenses, access to capital and funding, and better partnerships and collaborations with suppliers and contractors.

It is important to challenge the narrative that action on climate change will be expensive. While some investment of both time and resources may be required in the short term, many actions on climate will deliver cost savings, for example, the replacement of a diesel fleet with electric vehicles may reduce both fuel costs and emissions. Energy efficiency measures, such as better insulation or more efficient lighting may also reduce operational costs. Prioritising such measures in any action plan will build support for action.

### **Prepare plans for execution**

For some organisations, there could still be insufficient drivers or too much uncertainty to support action on climate. In these cases, it is important to understand the rationale for this conclusion and for the leadership of the organisation to confirm that approach, particularly in cases where regulators or other stakeholders have an interest or where the organisation chooses to report on climate issues. It is also worth considering what would need to change in order to trigger action on climate, and to put in place monitoring and reporting processes to detect those triggers, as well as high-level plans on what actions could be taken. Such triggers may include regulatory signals or policy changes, changes in markets or pricing, evidence of shifts in consumer sentiment, levels of emissions, or frequency and severity of extreme weather events.

### **Build organisational culture**

While top-down support can be a significant stride in the engagement journey, it is individual business units which will have to implement climate considerations in their day-to-day decision-making and operations. A shift in organisational culture is required to support teams in understanding the problem and working together to develop and implement a net zero strategy.

### **Build sustainability into the organisational purpose**

Aligning sustainability and climate goals with an organisation's purpose can support the process of getting employees on board with any structural changes or tasks which emerge through the climate action and reporting process. A consistent narrative — both externally and internally — which responds to any queries of "why is this relevant" is imperative to ensuring a smooth implementation process.

### **Back to business**

Efforts spent on mapping climate impacts on the organisation, as well as the organisation's impact on climate, will be important here as each part of the organisation can use that mapping to develop concrete action plans aligned with a strategy for net zero. At this stage that mapping can be extended internally, through consultation with internal stakeholders to develop an understanding of impacts and actions at a detailed level, including governance and risk management frameworks.

<sup>10</sup> [Anthesis Group, 'Research Reveals Sustainability Is Vital for Employee Attraction and Retention', 2021.](#)

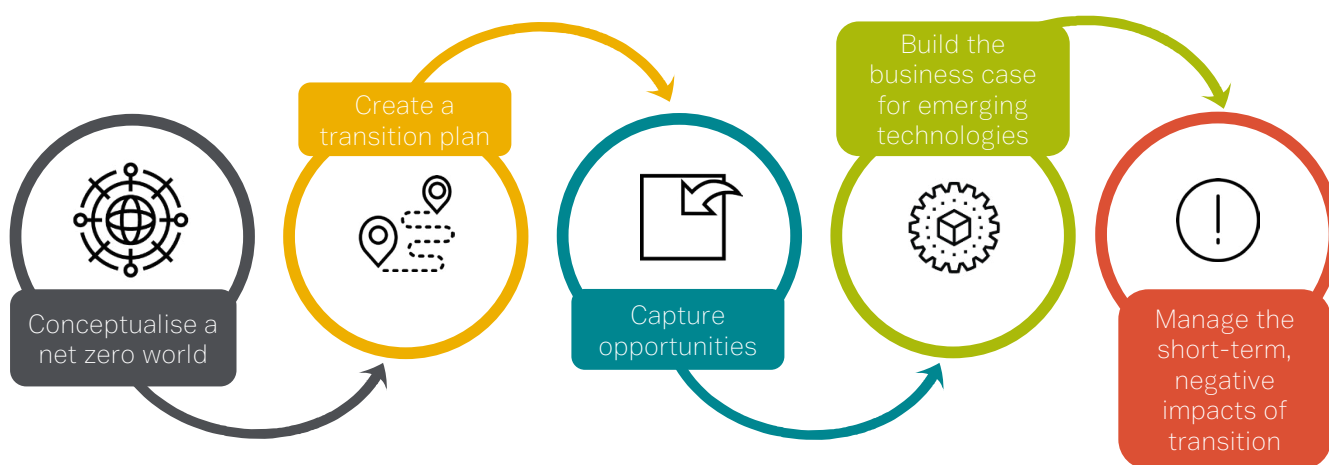
<sup>11</sup> Such as the Business Council of Australia and the Australian Industry Group.

# 3. Planning for net zero

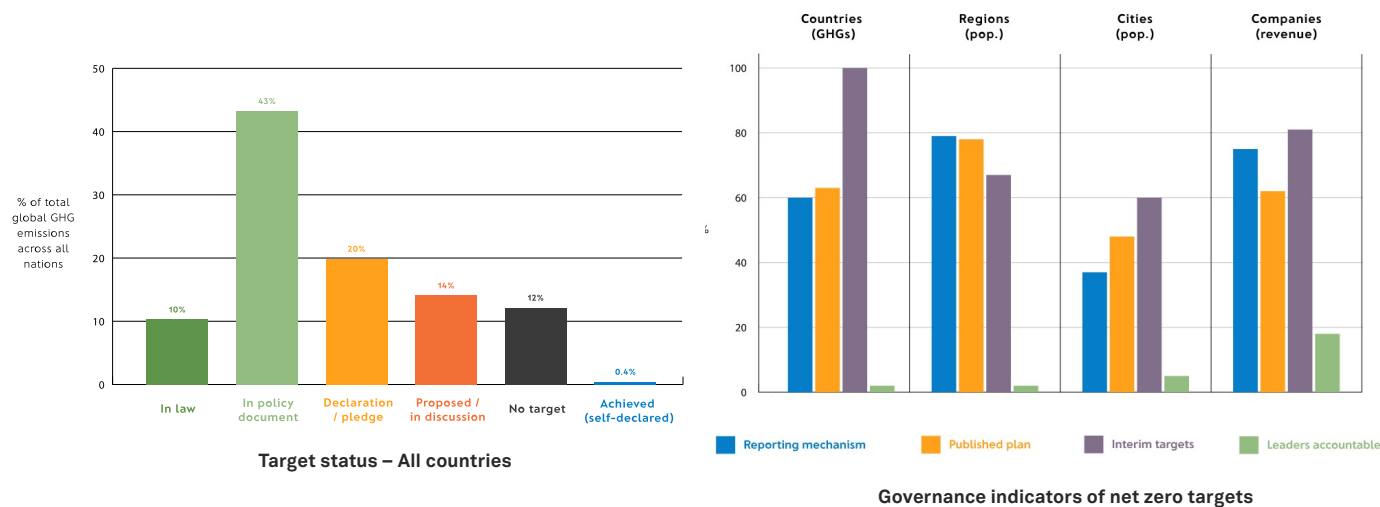
An ambition for net zero emissions is quickly becoming the minimum standard for governments and business. As of November 2021, over 130 countries have set or are considering setting a net zero target to 2050<sup>12</sup>. Over one-fifth of the world's largest companies, comprising major companies such as Nestle and Microsoft, have committed to net zero<sup>13</sup>. In Australia, all states and territories have set net zero targets to 2050, in addition to the Australian Government's ambition for net zero by 2050. The commercial sector is also responding to the call for net zero, with 55 ASX200 companies having made net zero commitments, making up more than 50 percent of market capitalisation as of March 2021<sup>14</sup>.

With fossil fuels deeply embedded in our economies since the Industrial Revolution, transitioning to net zero is an enormous task affecting nearly all value chains. Given the extent of change required as well as uncertainty on future policy and technological development, forming and executing a strategy for an orderly transition is a challenge which governments and organisations continue to face.

## The challenge: Planning and executing a net zero transition



## Post – COP26 Snapshot of net zero targets (Source: Net-Zero Tracker, 2021)



<sup>12</sup> D. Carver, 'Global net zero commitments', UK Parliament, 2021

<sup>13</sup> D. Shetty, 'A Fifth Of World's Largest Companies Committed To Net Zero Target', Forbes, 2021

<sup>14</sup> S. Patten, 'ASX200 companies committed to net zero targets treble in a year', Financial Review, 2021

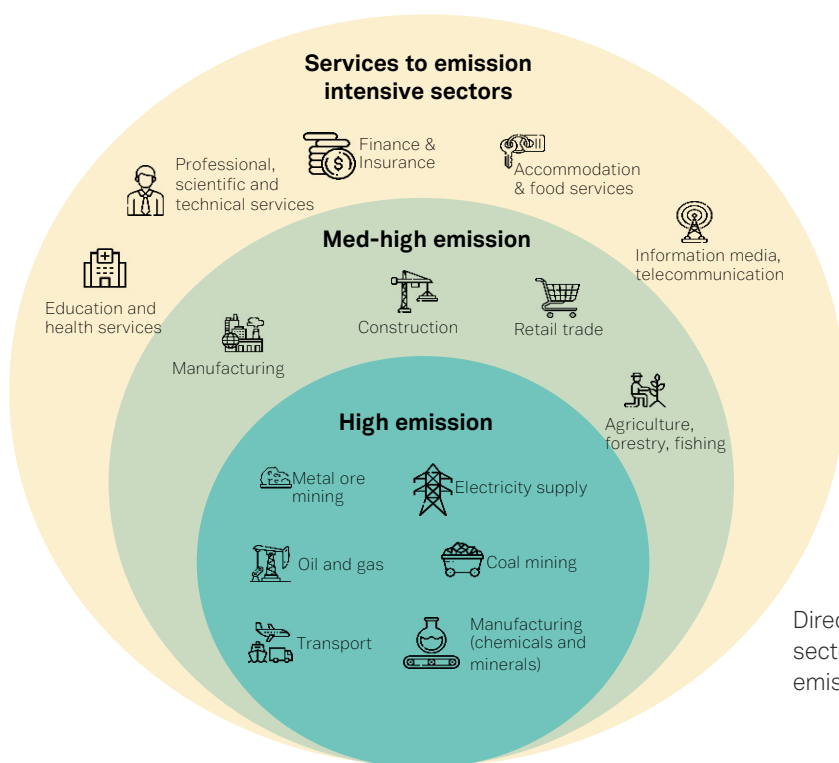


## Conceptualise a net zero world

As a first step in planning for net zero, an organisation should form a view or multiple views on what a net zero world could look like from the viewpoint of technology availability, customer preferences, regulatory expectations, and the changing physical climate. To help inform the prioritisation of risk mitigation measures and potential opportunities, this top-down view should aim to connect the organisation with the relevant factors of change. This can be challenging for organisations with low emissions, but dependant on sectors with high emissions within their supply chains, or companies that service high emissions sectors. Inspiration can be drawn from both international reports<sup>15,16</sup> as well as work by the Australian government and others (2nd Box below).

### What could the path to net zero look like for Australia?

Across the economy, sectors will be unevenly exposed to a net zero transition. While proposed net zero pathways for Australia share a common focus of driving the greatest emission reductions in high emission sectors, such as electricity, mining and transport, other sectors are likely to face some level of disruption through secondary impacts.



### Examples of secondary economic impacts of a net-zero transition

**Shifting product demand:** Reduced demand for emission intensive products (for example, ICE cars, fossil fuels) and increased demand/expectation for the adoption of low emission products/substitutes (for example, electric vehicles)

**Changes in production costs:** Due to the adoption of high-cost low-emission alternatives or a carbon price being imposed on high emission materials within the supply chain

**Reallocation of labour:** Changes in the economic structure away from high emission sectors

**Changes in capital allocation:** Demand shifts and net zero goals would drive the reallocation of capital towards less emission intensive investments

**Increased sector vulnerability:** Sectors highly exposed to physical climate impacts may experience product/service losses (for example, tourism, agriculture, aquaculture, forestry)

<sup>15</sup> IPCC, 2018, Chapter 2: [Mitigation Pathways Compatible with 1.5°C in the Context of Sustainable Development](#), *Global Warming of 1.5°C*

<sup>16</sup> IEA, [Net Zero by 2050, 2021](#).

## What could the path to net zero look like for Australia (cont.)?

To gauge where investment and efforts may be directed across the economy to capture net zero opportunities and reduce emissions, organisations can review the proposed net zero pathways for Australia. Summarised below are some key features of plans by the Business Council of Australia and the Commonwealth Government as well as net zero solutions proposed by ClimateWorks Australia and Climate Action tracker. More detail is available in the links provided.



### [Business Council of Australia: Achieving a net zero plan \(October 2021\)](#)

- Increase in renewable energy generation capacity to support abatement in the electricity sector
- Price in the abatement value of utility scale storage to promote investment
- Deepen offset market to balance hard to abate sectors
- Alter existing regulatory mechanisms to manage emissions (e.g. Safeguard)
- Incentivise low emission vehicles to reach cost parity with ICE vehicles, environmentally friendly locomotives for the rail industry
- Develop performance rating schemes to incorporate energy use and climate adaptation



### [Australia's Long-Term Emissions Reduction Plan \(October 2021\)](#)

- Drive down technology costs prioritizing clean hydrogen, low cost solar, energy storage, low emissions steel, carbon capture and storage, and soil carbon
- Enabling technologies such that they can be deployed at scale (e.g. Voluntary carbon markets, infrastructure, finance and incentives)
- Seizing climate related opportunities such as markets for metals and minerals required for low emission solutions and low emission fuels
- Building international partnerships to facilitate technology investment and offset schemes



### [Decarbonisation Futures: Solutions, actions and benchmarks for a net zero emissions Australia \(April 2020\)](#)

- Accelerate deployment of renewables, storage, demand management solutions
- Deploy energy efficiency and electrification (from renewables) solutions in the building and industrial sector
- Adopt electric vehicles and fuel cell vehicles for light transport
- Implement sustainable agricultural practices, such as plant-based substitutes, fertiliser management and carbon forestry solutions
- Invest in emerging technologies such as biofuels, synfuels, ammonia/hydrogen for transport, high grade heat electrification, solar thermal, hydrogen for the industrial sector, and livestock treatments and feed for the agricultural sector



### [Scaling up climate action: Key opportunities for transitioning to a zero emission society \(November 2020\)](#)

- Decarbonise the electricity sector through renewables and storage
- Use green hydrogen and other renewable based fuels to decarbonise industry processes
- Accelerate the development of the EV market
- Reducing emissions from the LNG sector through CCS, using renewable energy to liquify and transport gas and reducing fugitive emissions from LNG processes.
- Halt deforestation by 2030

## Create a transition plan

A transition plan which outlines how operations will pivot to align with net zero can support business planning and investment decisions. The plan should be transparent about timing and sequence, with progress actively communicated to stakeholders, and clear leadership accountability for achieving these plans.

### Create a cross-functional team

A transition to net zero will impact multiple areas of an organisation's operations. While it is critical that the environment, risk, investor relations, and finance teams are involved, core operational teams that have deep knowledge of the organisation's operations and other teams which can help influence strategic and operational decisions should also be consulted. As noted in Section 2, activating leadership is essential to ensuring that the cross-functional team can effectively drive change.

### Review risks and opportunities under net zero pathways

Under each pathway to net zero, an organisation should assess its ability to meet its stakeholder expectations under its existing strategy at multiple points in time. The exercise can help identify where opportunities and risks are likely to be present in the market, ultimately building the foundations of a

transition plan. A thorough assessment of potential risks and opportunities can require different skills and expertise across an organisation. Opportunity identification may benefit from input from product and strategy teams while risk identification may sit better with compliance, legal and regulatory teams. It is important to test a range of pathways, including ongoing emissions resulting in higher physical risks, even if an organisation is committed to transitioning to net zero.

### Work with the uncertainty

Forward looking data and assumptions used to develop transition plans will always carry uncertainties — particularly on the speed at which net zero is implemented, and any policy mechanisms used to drive change, for example, carbon pricing. Each future pathway, or emissions scenario, should represent a plausible outcome, without needing to assess the probability of that pathway being chosen. The TCFD recommendations, for example, encourage the use of scenarios that explore extreme outcomes, in order to better assess the resilience of an organisation's strategy.

The purpose of the net zero plan is not to forecast the future, but to help develop and prioritise potential actions and to identify and monitor triggers for emerging risks and opportunities. Not all risks should be acted on immediately but navigated with considerations of the implications for competitiveness, reputation, and profitability.



## Set interim targets and explore strategic options

While transitioning to net zero will require an ambitious long-run target, organisations should also create shorter term goals, for example, one to five years, in order to align the strategy with business plans, demonstrate commitment to the long-term plan, and drive accountability of leadership. Approaches developed by organisations like the Science Based Targets Initiative can assist in setting short-term targets suitable for different sectors (see box).

In all cases, the organisation will need to consider the current and future organisational capability required for successful execution of the plan, and how to acquire that capability. In some cases, this may lead to merger, acquisition and divestiture options. Many organisations, particularly in the fossil fuel sector, have also set up specific business units focussed on delivering the net zero plan. Mature companies can face the emergence of new competition — a salient example being the motor vehicle manufacturing industry, where Tesla's electric vehicles have overtaken the incumbent players who are scrambling to catch-up.

### What should a net zero target look like?

The [SBTi Net zero standard](#) was developed in 2021 to create a framework through which organisations can set net zero targets in line with climate science. Key requirements of the target include:

- **Focus on rapid, deep emission cuts:** Companies should be focused on achieving 90-95 per cent reductions across all emission scopes before 2050 to meet a 1.5-degree goal.
- **Set near- and long-term targets:** Companies should set both near-term and long-term science-based targets to ensure decarbonisation initiatives are not delayed too far into the future.
- **No net zero claims until long-term targets are met:** A company is only considered to have reached net zero when it has achieved its long-term science-based target. Carbon removals should only be used to neutralise residual emissions that cannot be eliminated once a 90-95 per cent emission reduction is met.
- **Go beyond the value chain:** In addition to achieving emission cuts through a company's value chain, a company should look to go further through making investments to support climate mitigation elsewhere. Value chain emissions should be reduced prior to investing in mitigation outside of this.<sup>17</sup>

To scale up the adoption of net zero targets, the UN Global Compact offers a six-month accelerator programme to companies to support the process of setting science-based emission targets aligned with a 1.5°C pathway.<sup>18</sup>

## Capture opportunities

Identifying climate-related opportunities can be challenging due to uncertainty regarding policy, technology and consumer sentiment.



**'Become a part of the solution – this attracts more investors and financiers.'**

Senior Governance Professional, Listed company

For primary industries such as the mining and resource sector, the emergence of suitable technology and expected efficiency gains in a net zero world may be sufficiently attractive to pursue their immediate development or adoption.

Shifting customer preferences, brand expectations, together with procurement guidelines that favour organisations with low emissions, may create an opportunity for brand differentiation and potentially attract new customers and investors. Other opportunities may benefit the organisation indirectly, such as by attracting talent and retaining employees. Other groups of stakeholders may offer room for collaboration and partnerships, such as with suppliers, customers, researchers or industry collaborations.

### Collaborate

Where technologies are in an early adoption phase or in development, it can be beneficial to collaborate with peers in a similar industry to spread investment risks in setting up pilot projects or trials. The use of hackathons and sharing ideas can also be beneficial for clearing the hurdles of net zero. For example, the Electric Mine Consortium was created with the objective of accelerating progress within the mining industry towards electric, zero emission and zero particulate mines<sup>19</sup>. Made up of some of the largest mining companies, members actively collaborate to test technologies and overcome barriers related to cost and uncertainties in technology choices.

Collaborating with similar organisations can also be a useful way to raise the level of net zero ambition within an industry and have a greater influence on reducing emissions across the supply chain. One example of this is the UN Net Zero Insurance Alliance which comprises 21 leading insurers and reinsurers globally.<sup>20</sup> The goals of the Alliance include setting net zero targets, setting interim targets for 2030 and engaging with the companies they invest in to adopt net zero ambitions.

### Use scenario analysis to support decision-making

Climate scenario analysis can be useful for testing the resilience of new products and opportunities to be pursued by an organisation. Testing a product under different brand expectations, regulatory settings, and physical climates can help both the development of the product and its long-term viability in the market.

<sup>17</sup> [Science Based Targets, 'SBTi Corporate Net-Zero Standard', v1.0.](#)

<sup>18</sup> [United Nations Global Compact, Climate Ambition Accelerator, 2022.](#)

<sup>19</sup> [Electric Mine Consortium](#)

<sup>20</sup> [UNEP, Net Zero Insurance Alliance, 2021](#)



### New Forest's strategic asset planning framework

In 2020, New Forest established a strategic asset planning framework to be used by its third-party property managers to manage material physical and transitional climate risks identified at assets.<sup>21</sup> In a step-by-step process, users begin by establishing risk and impact appetite tolerances together with targets appropriate to the investment mandate. Following this, asset functions critical to investment return (e.g., soil quality, land management) are assessed for their exposure to climate-related impacts. The outputs of this assessment are used to populate a risk and opportunity register with each climate impact evaluated for potential controls and residual risk over short to long term timeframes. The potential financial impact is also estimated.

Potential controls which are found to be effective are used to formulate strategic projects to be considered for implementation by the property manager. Each project is stress-tested in three regionally-specific climate scenarios to support the prioritisation of projects which enhance climate resilience. Projects are reviewed annually as part of strategic planning and budgeting.

### Don't get comfortable

Pursuing opportunities can build a competitive advantage for first movers but can quickly become the norm. It is important to actively review the actions of peers, local and global, to ensure an organisation continues to distinguish itself within the market, should it choose to be a market leader. Other organisations may deliberately choose to follow rather than lead — a strategy which reduces the risk of over-commitment, but increases the risk of obsolescence. What is clear though, is that organisations will need to be nimble and flexible in their approach.

Achieving a net zero transition in the 21<sup>st</sup> century will add to other strategic trends such as digitisation and increased geopolitical uncertainty, and those organisations that can successfully transform their business models through technology and innovation seem more likely to succeed.

<sup>21</sup> [UNPRI, TCFD for Real Assets Investors, 2021 page 19.](#)

<sup>22</sup> Additional information to support finance teams in SMEs can be found in work prepared by [Chartered Accountants Australia and New Zealand](#).

<sup>23</sup> [www.powershop.com.au/blog/small-business-is-the-missing-piece-in-australias-net-zero-future/](http://www.powershop.com.au/blog/small-business-is-the-missing-piece-in-australias-net-zero-future/)

<sup>24</sup> [The Carbon Trust, 2021, 'The journey to Net Zero for SMEs'](#).

<sup>25</sup> [SME Climate Hub, 2020.](#)

<sup>26</sup> [Department of Industry, 2022, Science, Energy and Resources.](#)

### Opportunities for SMEs in a net zero transition

In Australia, SMEs have a significant role to play in reaching net zero with SMEs collectively contributing up to 40 percent of carbon emissions.<sup>22,23</sup> Climate however is frequently not a priority, with SMEs having limited pressure from stakeholders, or access to human and financial resources to make any upfront investments in low emission technologies or climate disclosure.

Adopting low emission practices can provide tangible value to SMEs. Guidance released by Carbon Trust highlights some of these benefits as including:

- Cutting costs and raising profits: adopting energy saving practices and technologies can reduce costs
- Meeting expectations by larger companies: SMEs which understand their emissions and have targets may hold a competitive advantage in winning and keeping contracts with larger companies which have emission targets for their supply chain
- Customer expectations: being 'green' can help attract new customers, employees and business partners
- Opening new markets: offering 'green' products, services or business models may create new opportunities, and
- Enhancing reputation: adopting environmentally friendly practices can demonstrate good corporate social responsibility to stakeholders.<sup>24</sup>

As larger organisations and governments recognise the significant role of SMEs, more free tools and supporting information are becoming available to assess their emissions and emission saving measures. The SME Climate Hub is an example of such an initiative.<sup>25</sup> This one stop shop for SMEs allows organisations to make a commitment to halving emissions by 2030 and reaching net zero 2050. The hub provides free tools for SMEs to assist them reduce emissions and increase resilience, with a commitment to net zero unlocking additional resources.

In terms of financial resources, jurisdictions offer funding, grants, and incentives to SMEs to increase energy efficiency and reduce consumption. In Australia, a range of grant programs are available from state and federal government agencies.<sup>26</sup>

These include:

- Instant asset write-off scheme – SMEs can immediately deduct the full cost of all new asset purchases until 30 June 2023.
- Clean Energy Finance Corp (CEFC) – a Government statutory authority formed to 'facilitate increased flows of finance into the clean energy sector'. →



- Business Energy Advice Program (BEAP) – delivers trusted advice to help small businesses and their representatives get better energy deals and increase their energy efficiency.
- Environmental Upgrade Agreement – an incentive by the NSW Government which allows for the use of private finance to upgrade non-strata commercial buildings. SMEs can apply for longer term loans which can be financed via the savings obtained through efficient energy use.

### Build climate change impacts into investment frameworks

Where traditional investment frameworks fail to demonstrate the benefits of a climate opportunity, internal models can be adjusted to reflect the opportunity cost of failing to adopt the solution. For example, Swiss Re uses an internal carbon price to incentivise low emissions, high return operational investments supporting its net zero targets.<sup>27</sup> For investments that do not have a direct emission footprint, a resilience factor may be more appropriate, whereby the potential lost revenue due to failure to adopt the measure is considered in the business case. For example, failing to adopt climate resilience measures for a building may result in more frequent costs related to business interruption and asset damage under more severe weather events.

### Build the business case for emerging technologies

Climate related investments may not always meet the criteria of traditional investment frameworks due to their high upfront costs. This can be a barrier to their implementation, especially in cases where the financial benefit is not clear in the near term. For emergent technologies, business cases often depend on the learning curve — the rate at which production prices decrease over time and scale. Most notably, over the last two decades the wind and solar sectors have seen cost reductions that have taken even experts by surprise, leading to building new renewable energy becoming cheaper than continuing with existing energy sources in many jurisdictions. Business cases for new technologies often depend on assumed learning curves and hence future cost savings.

### Encourage the adoption of a long-term risk lens when thinking about climate investments

Many actions on climate will not present an immediate payoff for an organisation. Further, in the current low interest rate environment and with uncertainty surrounding government climate policy, approaches such as discounting future cash flows to estimate net present values may well understate the value of future benefits. However, such approaches may not be appropriate given the level of disruption and systemic change required to transition to net zero on a global economy wide scale. Even where the business case for climate investment makes clear financial sense, management that is incentivised based on short-term returns may be less likely to make the case for change. Remuneration structures may need to take a longer-term view on performance, with explicit ties to performance on achieving the net zero plan.



<sup>27</sup> Swiss Re, 2020, [Swiss Re introduces triple-digit internal carbon levy to support transition to net-zero emissions in operations by 2030](#).

## Managing the short-term negative impacts of transition

When implementing a transition plan, organisations need to manage and communicate the potential short-term negative impacts to accommodate both internal and external stakeholders' expectations. These impacts can include lower investment returns in the short-term, a redirection of internal resources, changes in product offerings, a greater risk appetite, and potential increases in short-term unemployment.



**'Set short-term goals, develop a roadmap.'**

Senior Governance Professional, Listed company

### Spell out your journey

While there is no one size fits all solution for managing the short-term adverse impacts of transitioning to net zero, there can be benefit in providing a narrative for stakeholders about the long-term value created by an organisation's climate plans before execution. Efforts to engage with stakeholders give them confidence in any changes or short-term deviations to organisational performance and branding. A notable example is Germany's plan to rapidly phase out the use of thermal coal for energy, but to also support the transition of existing coal workers to new industries or retirement.<sup>28</sup> Notably, this plan was arrived at through collaboration between federal and state governments as well as companies and unions.

### Adopt a measured and iterative approach

Where investment risks may be significant or resources are constrained, a staged approach or implementation may be more suitable to manage this risk. Changes can be tested or implemented in a division of an organisation prior to expanding it more broadly. In these cases, a timing sequence which is manageable within the bounds of organisational resources should be adopted and relevant timeframes transparently communicated to stakeholders.

### Case study: A organisation's approach to embedding climate in decision making

An Australian retailer has been adopting the recommendations of the TCFD for over three years. Below are some of the ways they actively integrate identified areas of climate risk exposure into building resilience across their operations.



Formulation of a five-year sustainability strategy which includes time specified climate goals. This strategy serves as an 'anchor' for all near term decision-making related to climate.



Climate is integrated into the risk function, formalised by including it in the risk management framework. This brings climate change routinely and regularly to the front of mind when decisions are made at the board level.



The outcomes of climate scenario analysis are used to support business plans for more sustainable alternatives upon renewal of existing contracts, equipment and the opening of new store locations.



A critical first step was selecting lower emission solutions targeted at meeting business outcomes. For example, the conversion of lighting in all stores to LEDs led to both lower emissions and savings on energy costs over the longer term.



For more cost significant investments, the retailer uses an incremental approach. The adoption of high value, lower emission solutions, such as refrigeration or motor fleet replacement are staged across the network. For example, more energy efficient solutions are adopted at the end of the equipment lifetime. Another example includes entering into renewable power purchase agreements to compliment and smooth the transition to retail renewable energy contracts when existing contracts end.

<sup>28</sup> [ABC News, 2020, Germany is shutting down its coal industry for good, so far without sacking a single worker.](#)

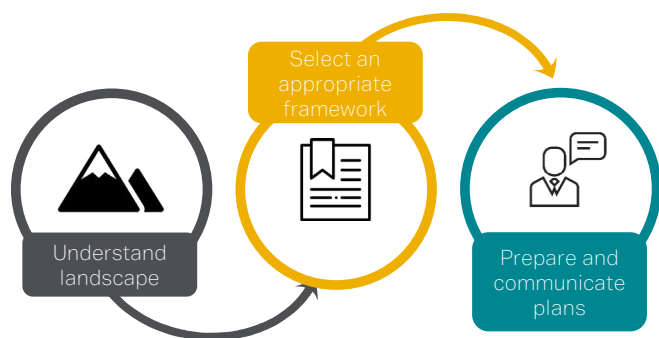
# 4. Working with stakeholders

In recent years, organisations have faced growing regulatory, investor, and social pressure to convey their understanding of climate change risks together with their plans to manage and minimise this risk. This is reflected in increasing levels of climate risk disclosure in financial statements for listed companies, as well as an increase in commitments to achieve net zero emissions.

There are currently multiple disclosure frameworks for organisations to communicate their management of climate impacts, with some integrated with wider ESG reporting, while others are solely climate focused. As frameworks and reporting requirements continue to evolve, reporting can be a convoluted and intimidating exercise. Furthermore, disclosing and committing to a transition plan can be difficult in the face of uncertain climate futures and a shifting investor and regulatory landscape.

“**‘We just don’t know the impact it will have on our clients and what they will expect from us to satisfy their issues on climate.’**  
Senior Governance Professional

## The challenge: Working with stakeholders



## Understand the regulatory and legal landscape

In the last few years, Australian regulators have been increasing their oversight of climate related disclosure by organisations. Furthermore, liability risk is on the rise with Australia placing second in the world for climate litigation cases. This combination of increasing regulatory expectations and an evolving legal landscape makes it crucial for companies to recognise the importance of creating meaningful and transparent disclosure documents.

### CLIMATE RISK DISCLOSURE: AUSTRALIAN REGULATORS’ VIEWS

*‘Climate change is exposing financial institutions and the financial system more broadly to risks that will rise over time, if not addressed... It is important that the focus of [climate-related financial] disclosure is on consistently and regularly providing quality information, so that financial institutions and investors can build an economy-wide understanding of the risks and how they are evolving’.*

– Reserve Bank of Australia, 2019<sup>29</sup>

*‘The [ASX Corporate Governance] Council would encourage entities to consider whether they have a material exposure to climate change risk by reference to the recommendations of the TCFD and, if they do, to consider making the disclosures recommended by the TCFD.’*

– ASX Corporate Governance Council, 2019<sup>30</sup>

*‘APRA... continues to encourage the adoption of voluntary frameworks to assist entities with assessing, managing and disclosing their financial risks associated with climate change, such as the TCFD recommendations. Looking ahead, the financial risks of climate change will continue to be a focus of APRA’s efforts to increase industry resilience, and more supervisory attention is being given to understanding these risks.’*

– Australian Prudential Regulation Authority, 2020<sup>31</sup>

*‘ASIC considers that the law requires an OFR [operating and financial review disclosure] to include a discussion of climate risk when it is a material risk that could affect the company’s achievement of its financial performance... ASIC recommends listed companies with material exposure to climate risk consider reporting under the TCFD framework’.*

– Australian Securities & Investment Commission, 2021<sup>32</sup>

*‘In preparing financial statements, [public sector] agencies should consider climate related matters, if the effect of climate risk is material. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of financial statements make on the basis of those financial statements.’*

– NSW Government Treasury, 2021<sup>33</sup>

<sup>29</sup> RBA 2019, [‘Financial Stability Review’](#)

<sup>30</sup> ASX Corporate Governance Council 2019, [‘Corporate Governance Principles and Recommendations’](#), 4th Edition,

<sup>31</sup> Summerhayes G, 2020, [‘Understanding and managing the financial risks of climate change’](#),

<sup>32</sup> Armour C, 2021 [‘Managing climate risk for directors’](#),

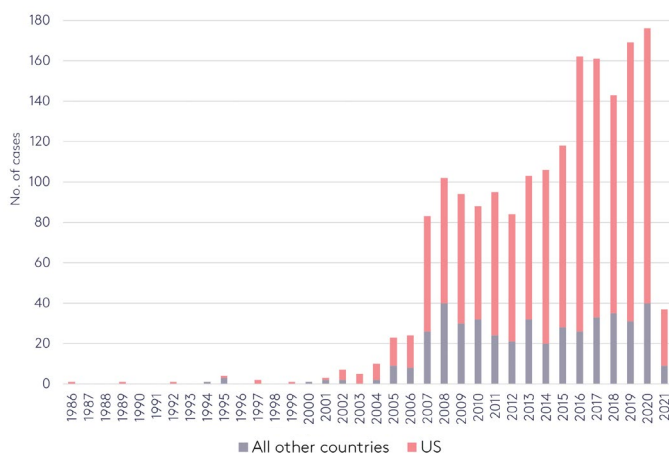
<sup>33</sup> NSW Treasury, 2021, [‘Guidance on how to reflect the effects of climate related matters in financial statements’](#),



## Climate litigation

Globally, climate-related litigation has noticeably increased in volume and scope since the signing of the Paris Agreement in 2015. As shown in the figure below, since 2015 the total number of climate change-related cases has more than doubled. There were just over 800 pieces of litigation commenced between 1986 and 2014, which has increased to over 1,000 cases in the last six years.<sup>34</sup> Although most litigation to date has been brought against governments, a small but growing group of cases also target the private sector.

Total climate litigation cases brought globally (up to May 31 2021). Note: Litigation in the US shown separately due to the high volume relative to the rest of the world.<sup>35</sup>



### Australian landscape

This year, Australian courts have affirmed the science behind climate change by allowing supporting scientific data to be admitted as evidence and have accepted that the catastrophic impact of climate change on future generations is foreseeable. In accepting this likelihood of future impacts, courts have established that a duty of care to prevent environmental damage associated with carbon emissions can exist (see *Sharma v Minister for the Environment* below).

Recent developments regarding climate change litigation in Australia, as described by the Law Society of NSW, can be characterised into three broad themes:

- The duty of care to avoid harm from carbon emissions
- Challenges to government policy, and
- Disclosures regarding climate change risk.<sup>36</sup>

### The duty of care to avoid harm from carbon emissions: *Sharma v Minister for the Environment* [2021] FCA 560

In 2021, the Federal Court of Australia found that government decision makers owed a duty to persons under 18 years of age to take reasonable care to avoid causing them harm from further carbon emissions when determining whether to approve the expansion of a coal mine. This decision has the potential to significantly impact fossil fuel project approvals in the future, and is currently subject to an appeal to the High Court of Australia.

*Update: On 15 March 2022, the Federal Court of Australia held that while the evidence of climate change and its dangers to humanity was not disputed, the minister did not have a duty of care to Australia's children, thereby overturning the previous ruling of the court.*

### Disclosures regarding climate change risk

#### *Australasian Centre for Corporate Responsibility v Santos Limited* NSD858/202

2021 saw the filing of Australia's first case and the first case globally to challenge the veracity of a company's net zero targets. The Environmental Defenders' Office, acting on behalf of the Australasian Centre for Corporate Responsibility (ACCR), commenced proceedings against Santos Limited in the Federal Court of Australia over claims that natural gas is 'clean fuel' and that it has a 'credible and clear plan' to reach net zero emissions by 2040. These representations, along with others are alleged to constitute misleading and deceptive conduct.

#### *Mark McVeigh v Retail Employees Superannuation Pty Ltd* NSD1333/2018

An Australian superannuation fund member filed proceedings against the Retail Employees Superannuation Trust (REST) in July 2018, alleging that the fund violated the Corporations Act 2001 by failing to provide information related to climate change business risks and any plans to address those risks.

Before the trial was set to begin, REST reached a settlement with the plaintiff and set out the details of the settlement in a press release. REST acknowledged that 'Climate change is a material, direct and current financial risk to the superannuation fund across many risk categories, including investment, market, reputational, strategic, governance and third-party risks.' To address this risk, REST agreed to implement a net zero carbon footprint by 2050 goal for the fund, to measure, monitor and report climate progress in line with the TCFD Framework, to ensure investee climate disclosure, and to publicly disclose portfolio holdings, among other commitments.

<sup>34</sup> Setzer J and Higham C, 2021, [Climate change litigation is growing and targeting companies in different sectors.](#)

<sup>35</sup> Setzer J and Higham C, 2021, [Climate change litigation is growing and targeting companies in different sectors.](#)

<sup>36</sup> [The Law Society of New South Wales.](#)

## Challenges to Government policy

### Bushfire Survivors for Climate Action Incorporated v Environment Protection Authority [2021] NSWLEC 92

The climate action group, Bushfire Survivors for Climate Action (BSCA) commenced proceedings against the NSW Environmental Protection Authority (EPA) arguing that it had a duty under the Protection of the Environment Administration Act 1991 (NSW) (Act), to develop objectives, guidelines and policies to ensure environmental protection from climate change.

The Court held that the EPA had failed in its duty to implement the necessary policies, guidelines and objectives relating to climate change as none of the EPA's policy documents dealt specifically (or in some cases even at all) with climate change. Whilst the decision may be appealed in 2022, its ramifications will likely extend to all companies requiring EPA approval for any projects that may impact climate change.

## Greenwashing risks

Greenwashing is a term used to describe the practice of companies making inaccurate climate related disclosures, including flawed climate scenario analysis and net zero commitments that are misleading or made without a reasonable basis.<sup>37</sup> With an increasing number of publicly announced net zero commitments in recent years, an organisation could be exposed to litigation risk if such targets are deemed misleading due to no genuine intention to pursue them, or no credible efforts being made towards implementation.

Australian regulators are also looking at greenwashing. ASIC recently announced it would review the disclosure practices of managed funds and superannuation funds offering financial products claiming to be environmentally friendly or 'green'.<sup>38</sup> ASIC's activities relate to concerns that funds may be misleading investors about the 'green' status they attribute to their investments or activities.

Greenwashing can also bring into question the veracity of other organisational disclosures, resulting in a decline in stakeholder trust. A lack of stakeholder trust can have a negative effect in multiple ways, such as increasing its cost of capital, thus reducing valuations and making it more difficult to attract investors. Potential partners and consumers may also reconsider buying the company's products and services, and it could become harder to attract and retain top talent who demand that their employers demonstrate a firm commitment to climate-related goals.

## Selecting a reporting framework

The reporting framework selected for climate disclosures will be unique to each organisation but should be able to meet stakeholder expectations. With multiple frameworks available, varying interests of stakeholders, together with stakeholders' need for comparability across organisations, this can frequently lead to a duplication of efforts and reporting.



**'The biggest challenge is that there is a lack of consistent reporting frameworks especially around disclosure.'**

Early Career Governance Professional, Charity

### Types of reporting frameworks

There are multiple reporting frameworks available with the most common including the TCFD, CDSB, GRI, CDP, SASB, and IIRC. While TCFD and CDSB are more climate focused, the GRI, CDP and SASB have a broader sustainability focus. The IIRC and CDSB frameworks promote the integration of financial and non-financial reporting.<sup>39, 40</sup>

With a lack of comparability and expectations across frameworks known to be a key issue around sustainability reporting, the International Financial Reporting Standards Foundation (IFRS) launched the International Sustainability Standards Board (ISSB) in 2021 with a mission to develop global sustainability standards and disclosure requirements.

As the initiative will require a significant coordination effort across jurisdictions and stakeholders, it will initially focus on climate before expanding the standard to broader sustainability issues. The ISSB will build on the TCFD and consolidate other voluntary standards (CDSB, IRF, SASB standards and the World Economic Forum's Stakeholder Capitalism Metrics) by mid-2022.

While the ISSB looks to harmonise existing frameworks, organisations already using these frameworks will be able to leverage existing work to date. Frameworks like the TCFD should continue to be adopted in the interim for reporting on climate related issues.

For additional support on aligning disclosure with the recommendations of the TCFD, reporters can leverage existing online support through the TCFD Hub.<sup>41</sup>

<sup>37</sup> Hutley N SC and, Hartford-Davis S, 2021, [Climate Change and Directors Duties — Supplementary Memorandum of Opinion Centre for Policy Development](#).

<sup>38</sup> Armour C, 2021, ['What is greenwashing and what are its potential threats'](#), ASIC.

<sup>39</sup> IIRC [International Integrated Reporting Council], 2013, [International Integrated Reporting Framework](#).

<sup>40</sup> Climate Disclosure Standards Board, 2022, ['CDSB Framework for reporting environmental & social information'](#).

<sup>41</sup> TCFD Knowledge Hub, 2018, ['Integrated Reporting Examples Database'](#).

## Snapshot of commonly adopted reporting frameworks

(Image adapted from [The Conference Board, 2018](#))



### Focus on material impacts

Trying to meet the requirements of multiple frameworks can lead to poor quality disclosure and confusion among stakeholders. Instead, the use of a materiality assessment can support the identification of the most relevant ESG impacts to stakeholders and the corresponding reporting framework that would have the greatest impact. In this context, it is important to note that an organisation that faces future risks and opportunities that can impact investor decisions (materiality for investors), may see no financial impact today on its balance sheet today (financial materiality).

### Keep your stakeholders involved

Sharing initial plans for disclosure with key stakeholders can be valuable for understanding their interests and concerns. This can then:

- direct where efforts should be prioritised in the disclosure journey, and
- ensure the reporting standard selected clearly reflects information of value for stakeholders.

### Be transparent on reporting challenges

Given the large amount of time and resources required, it is important to be transparent with stakeholders about the challenges and limitations that the organisation is facing in the disclosure process. This will ensure that when disclosure documents are released, stakeholders are aware of what to expect in terms of detail and extent of the disclosure and are informed about the evolving process happening inside an organisation.

Asking for feedback can also assist in understanding how disclosure is being received, helping identify where

improvements need to be made. A particular issue can be the availability of reliable data on sustainability and climate-related performance, such as emissions levels across the organisation's supply chain.

### Review the actions of competitors and peers in the industry

Consider looking at what others in the industry are disclosing and their frameworks of choice. In instances where there are differences, consider why the organisation may have chosen the framework, and to which stakeholder this may be relevant.

## Preparing and communicate plans



**'Think of it as a staged approach, and improve reporting year-on-year.'**

Senior Governance Professional, Listed company

### Use external resources where they can add value and save time

Engaging experts to build capacity and assess data quality can be useful especially when completing disclosure reports for the first time. Experts can help organisations identify best practices across industry peers, identify the appropriate reporting framework, and support the identification and assessment of climate risks. Experts should, however, be seen as facilitators of the process, overlaying a climate lens on existing institutional knowledge. It is vital for business or operational teams to be actively involved in every step.





### Drive ownership through regular reporting

While the process of disclosing climate change risks and opportunities in itself can be time consuming and require the support of employees throughout the organisation, the process of regular public disclosure is beneficial in enabling teams to reflect on their actions on climate change to date. This can help build a sense of accountability among teams to act in an environmentally responsible manner if they have to report annual progress.

### Do not get caught up in the details

The process of producing a climate disclosure document can identify data gaps or limitations in data quality. It is important not to get caught up in having a perfect data set, rather in obtaining data that will allow an organisation to identify and deliver insights. Processes to address data gaps can be implemented to ensure information is available for the next iteration of disclosure. Where information needs to be assumed or estimated, it must be disclosed.

### Build credible climate commitments

In the context of setting net zero targets, Noel Hutley SC and Sebastian Hartford Davis proposed several practical steps for avoiding greenwashing in their most recent opinion.<sup>42</sup> They include:

- **Developing a net zero strategy which is integrated with the company's operational strategy.** An internally integrated decarbonisation strategy offers more surety when making commitments as opposed to a strategy based on unknown contingencies such as future technologies and the actions of external supply chain stakeholders.
- **Documenting the drivers and assumptions** that underpin the company's ability to achieve net zero in the future. These should be tested and relevant considerations and factors also documented. Although it does not absolve directors of their responsibility of supervising the strategy, it is recommended that qualified external advisors are engaged in the formulation and review of a net zero commitment.

- **Explaining which emissions are encompassed** by the net zero strategy and the relevant associated timeframes. This includes consideration of different scopes of emissions.

- a) Scope 1 emissions — released as a direct result of activity at an operations level. For example, emissions from a company's manufacturing activities.
- b) Scope 2 emissions — released from the indirect consumption of an energy commodity. For example, using electricity generated by burning coal.
- c) Scope 3 emissions — indirect emissions that are not captured by scope 2. These occur at sources not owned or controlled by the business. For example, the emissions released by transporting fuel which the organisation will use.

- **Prompt disclosures relating to not reaching targets,** fulfilled or otherwise affected by supervening circumstances. For example, if an assumption such as future advancements in carbon capture and storage technology does not materialise, there is a reasonable expectation that this would need to be disclosed. This is all contingent on the company continually reassessing the achievability of their targets.

### Develop metrics to measure progress

Metrics disclosed can be used to demonstrate to stakeholders how an organisation's exposure to climate related risks is changing over time. Examples of metrics include emission data, investments in climate opportunities, and the amount of senior management remuneration impacted by climate considerations.

As appropriate metrics will vary by organisation and sector, the TCFD recommends disclosing climate metrics that are material to the organisation. This is with the exception to Scope 1 and 2 emissions which are recommended for disclosure independent of materiality. More information on the use of climate related metrics can be found in the TCFD's guidance on Climate related metrics, Targets and Transition Plans.<sup>43</sup>

<sup>42</sup> Hutley N SC and Hartford-Davis S, 2021, [Climate Change and Directors Duties — Supplementary Memorandum of Opinion](#), Centre for Policy Development

<sup>43</sup> TCFD, 2021, [Proposed Guidance on Climate-related Metrics, Targets, and Transition Plans](#)

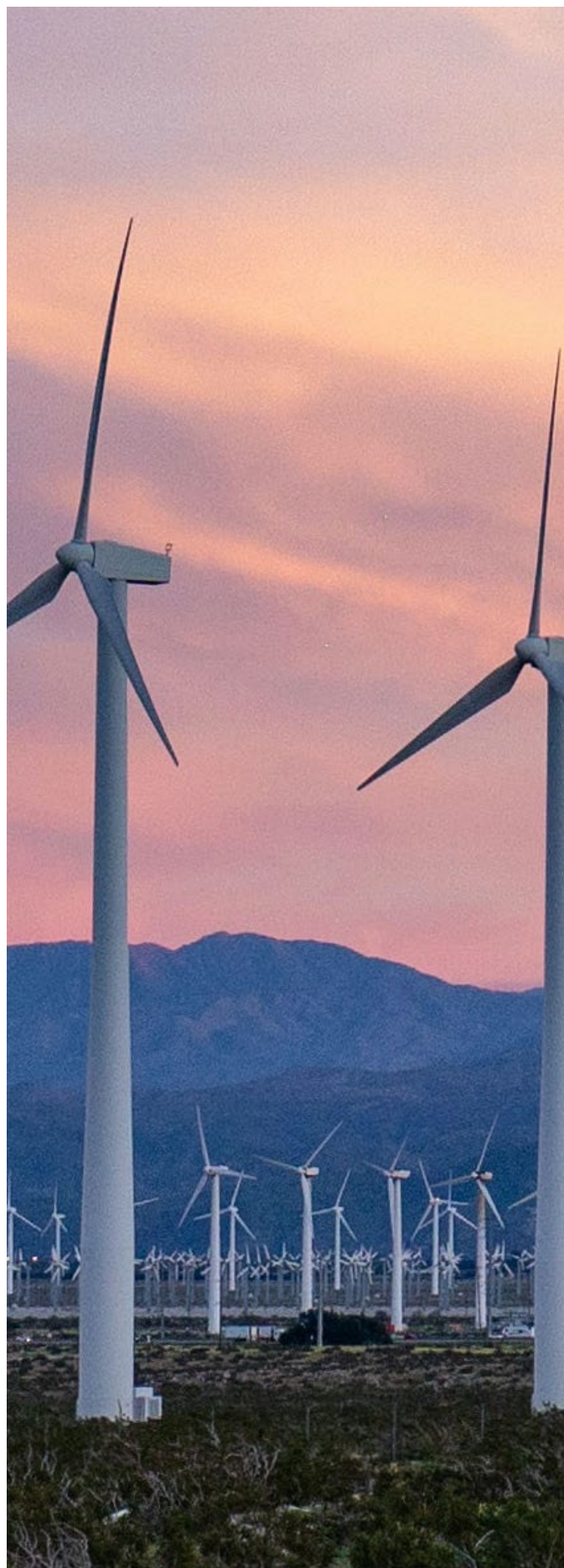
## 5. Conclusion

This Guide looks to support organisations navigating the challenges of embarking on their climate journey. While the evolving expectations on climate disclosure and action can be intimidating, they serve to ensure organisations can remain resilient and thrive in the future. Consequently, embedding climate into the organisation needs to be more than a tick box exercise. Instead, it should be an ongoing educational journey of understanding how your organisation interacts with, and can succeed under, all potential climate change futures.

While each organisation will be unique in the climate challenges it faces, this Guide identifies some common themes for success which include:

- learning and collaborating with peers and experts to fill knowledge gaps
- actively engaging with internal and external stakeholders to understand their expectations
- adopting a measured and iterative approach within the bounds of existing resources, and
- being transparent about the details of your journey.

These principles, combined with a mindset of embracing opportunities in a net zero world, can support your organisation in successfully navigating the rapidly evolving climate space, and answering the question what should my organisation do about climate change?



# 6. Governance Institute Working Group members

- **Eirene Garnsey** FGIA, General Manager, Compliance and Secretariat, Scentre Group Limited
- **Duncan Glasgow** FGIA, Group General Counsel and Company Secretary, Magnis Energy Technologies Limited
- **Michelle Hall** FGIA, Company Secretary, Woolworths
- **Helen Hardy** FGIA, Company Secretary, Origin Energy Limited
- **Stephen Harris** FGIA, Managing Partner, Blackhall & Pearl
- **Komal Jalan** FGIA, Principal Sustainable Investment Manager, Pacific, Mercer (Australia) Pty Ltd
- **Carmen Lunderstedt** FGIA, Company Secretary, Corporate Secretariat, Bendigo and Adelaide Bank
- **Joanne McDonald** FGIA, Company Secretary and Head of Corporate Affairs, IGO Limited
- **Maureen McGrath** FGIA, General Counsel, Compliance and Secretariat, Scentre Group
- **Catherine Maxwell** FGIA, General Manager, Policy & Advocacy Governance Institute of Australia Ltd
- **Fiona Mead** FGIA, Company Secretary and Head of Group Governance, CSL Limited
- **Tim Timchur** FGIA, Director, 365 Architechs Pty Ltd
- **Leanne Wrightson** AGIA, Risk Officer, NSW Environmental Protection Authority



# About Finity Consulting



Finity Consulting Pty Ltd ACN 111 470 270 (Finity Consulting) assisted the Governance Institute in commissioning this report with members.

Finity Consulting is an actuarial and strategic analytics firm that brings data to life with an actuarial approach, a practical lens and a human perspective. We are a trusted partner of tech start-ups through to large scale organisations. Our teams help business leaders navigate complex challenges and bring clarity to decision making.

For over a decade Finity Consulting's Climate Risk Practice has provided clients with business solutions developed from our deep understanding of the physical and financial risks associated with natural perils such as storms, bushfires and cyclones. We partner with organisations to help them build an understanding of their business' exposure to climate change and develop a smart climate risk strategy.

More information on Finity Consulting can be found [here](#).