

INVESTING IN THE DARK

Australian companies are failing to properly disclose climate risk

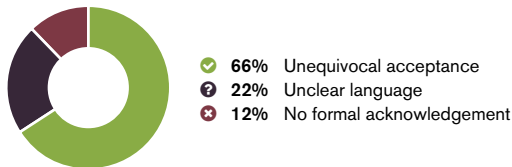
This new Market Forces study has revealed a chronic failure of Australian companies to disclose the risks to their business as a result of climate change impacts and actions to reduce greenhouse gas emissions.

 MARKET FORCES

Q FINDINGS

Science

Does the company accept the science of climate change?



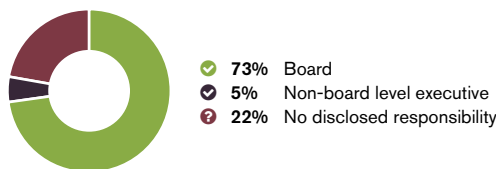
While 66% of companies have unequivocally accepted climate science, 22% of companies are unclear in their language. The remaining 12% have not formally acknowledged the science of climate change.

Acknowledgement of climate science demonstrates that a company's board and senior executives understand the need to decarbonise the economy, and have considered the implications this may have on their business.

Methodology: to demonstrate acceptance of climate science, the company must provide an unequivocal acknowledgement of the aims of the Paris Agreement or the need to decarbonise by the second half of the century; simply mentioning climate change is not sufficient.

Governance

Who has responsibility for managing climate risk?

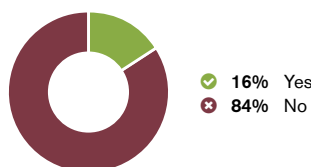


At 73% of companies, the Board has overall responsibility for managing climate risk. A further 5% of companies placed this responsibility with another (i.e. non-Board level) executive. 22% of companies did not disclose any such responsibility.

The TCFD recommends that companies "describe the board's oversight of climate-related risks and opportunities." Clearly, many companies must familiarise themselves with the TCFD's recommendations on governance.

Methodology: responsibility for "sustainability" or "environmental, social or governance" (ESG) issues is not sufficient in this context; climate change or climate risk must be explicitly mentioned.

Does remuneration encourage emissions reduction?



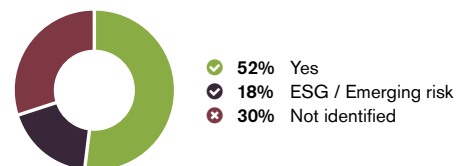
Just 16% of companies remunerate executives to reduce GHG emissions. If remuneration packages are designed to drive behaviour, then broadly speaking, Australia's corporate executives are not being incentivised to tackle climate change.

Many companies state in their responses to the CDP (formally Carbon Disclosure Project) that some staff are remunerated for emissions reduction and/or efficiency, but formal Remuneration reports suggest this does not typically extend to senior executives.

Methodology: targets and KPIs described in Remuneration reports contained within Annual Reports were assessed. Remuneration reports typically include senior executives only (Board, CEO and their direct reports).

Risk Management

Does the company identify climate change as a material business risk?



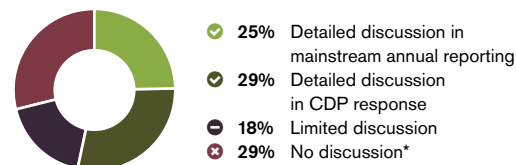
A little more than half (52%) of the companies studied identify climate change as a material business risk, despite all assessed companies operating in sectors determined by the TCFD to be highly exposed to climate risk.

A further 18% of companies define climate risk as an "emerging risk," an "ESG risk," or a "sustainability risk," often in the Sustainability Report rather than the Annual Report. The TCFD recommends that climate risk be disclosed as part of mainstream annual financial reporting.

The findings are particularly worrying in light of Noel Hutley SC's 2016 legal opinion, stating "directors certainly can, and in some cases should be considering the impact on their business of climate change risks—and that directors who fail to do so now could be found liable for breaching their duty of care and diligence in the future."

Methodology: climate risk (or the transition/physical impacts of climate change) must be explicitly mentioned in principal or material risks in the annual report.

Has the company discussed the risks/opportunities from climate change?



25% of companies provide a detailed discussion of climate risks and opportunities in mainstream annual reporting. A further 29% provide a detailed discussion in their response to the CDP survey.

18% provide a limited discussion, while 29% do not disclose any discussion of the risks and opportunities posed by climate change.

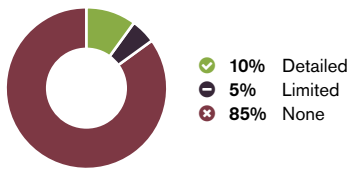
A key tenet of the TCFD recommendations is that climate risk information should be included in mainstream financial reporting. Such disclosures would then be readily accessible to investors, regulators and the wider public.

Methodology: 'Detailed' disclosure means a discussion of the risks and opportunities posed by climate change, including the expected severity and likelihood of the impact, and the timeframe in which the impact may arise.

* Percentages may not add to 100 due to rounding.

Strategy

Has the company disclosed scenario analysis?

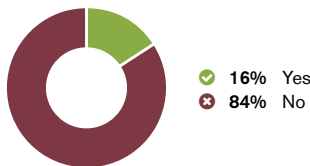


Just 15% of companies have disclosed some form of scenario analysis—10% of these could be considered detailed, while a further 5% have disclosed limited scenario analysis. 85% of companies have not produced analysis of how their business is expected to fare under different climate change scenarios.

Scenario analysis is perhaps the most important of the TCFD's recommendations, as it can provide clear measures of a company's future viability in situations where global warming is limited to less than two degrees. This is intended to encourage companies to understand that 'business as usual' is not a sustainable model. In turn, investors are able to determine the most appropriate, sustainable allocation of capital.

Methodology: comprehensive analysis should include assumptions, multiple scenarios, cover the entire business, and provide some numeric output, not simply text.

Does the company have a clear plan to reduce emissions?



Just 16% of companies have disclosed a plan to reduce their carbon emissions while 84% of companies have not produced a plan.

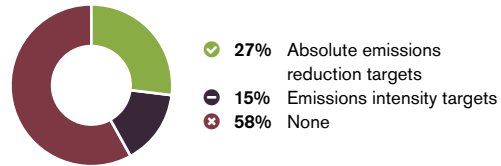
This is staggering in light of the Paris Agreement mandating a carbon-neutral global economy by the second half of this century.

While a number of companies have made ambitious statements along the lines of the Paris Agreement's aims, these are rarely backed up with concrete commitments.

Methodology: plans should have clear, measurable interim targets, along with detailed descriptions of how those targets will be achieved. In this context, carbon abatement—that is, the purchase of carbon offsets—is not considered an emissions reduction plan.

Metrics and Targets

Has the company set emission reduction targets?

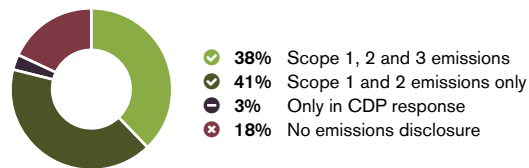


Along with the 27% of companies that have set absolute emissions reduction targets, a further 14% have set emissions intensity targets. In many cases, the latter allows for overall emissions to increase, provided emissions per unit of production decrease.

Emissions intensity targets, while a useful short-term goal, should be coupled with absolute targets wherever possible.

Methodology: where companies have set both absolute and intensity reduction targets, we have acknowledged the absolute target.

Does the company disclose its emissions?



38% of companies disclose Scope 1, 2 and 3 emissions. 41% disclose Scope 1 and 2 only, while a further 3% disclose their emissions only in response to the CDP.

Companies should disclose emissions for the current year and at least the previous year (preferably 3-5 years) in mainstream reporting.

Scope 1: Direct emissions from company activities.
Scope 2: Indirect emissions from use / consumption of energy etc.
Scope 3: Indirect emissions as a consequence of company's activities, such as extraction and production of materials purchased by the company, transportation of purchased fuels, or use of products and services sold by the company.

The information provided in this report does not constitute financial advice, and is provided purely for educational purposes. It should not be used, relied upon, or treated as a substitute for specific professional advice.

Market Forces recommends individuals obtain their own independent professional advice before making any decision relating to their particular financial requirements or circumstances.

CLIMATE RISK TO ASX100 COMPANIES

Market Forces analysed the public disclosures of 73 ASX100 companies that operate in sectors facing the highest levels of climate risk.

Climate risk disclosure across these companies was found to be largely inadequate, leaving investors and the public in the dark about the massive dangers climate change poses to the economy. The vast majority of companies have failed to incorporate the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), an initiative backed by investors managing over AU\$100 trillion.

Clearly, voluntary schemes are not resulting in sufficient climate risk disclosure from companies. We need regulators to implement a mandatory TCFD-aligned disclosure framework for Australian companies.

Findings correct as of 27 March 2018.



Of the 73 ASX100 companies with high climate risk exposure:

- 52% identify climate change as a material business risk
- 53% disclose the risks and opportunities posed by climate change
- 15% disclose 2°C scenario analysis
- 16% disclose an emissions reduction plan
- 42% have set an emissions reduction target

Company	Sector	Science	Governance	Risk Management		Strategy	Metrics and Targets		
		Does the company accept the science?	Who has responsibility for climate risk?	Does the company consider climate risk to be material?	Does the company discuss risks/opportunities from climate?	Has the company disclosed scenario analysis?	Does the company have a plan to reduce emissions?	Has the company set emission reductions targets?	
Commonwealth Bank of Australia	Financials	Yes	Board	No	Yes	CDP only	No	Yes	Absolute
Westpac Banking Corporation	Financials	Yes	Board	No	Yes	CDP only	Limited	Yes	Absolute
BHP Billiton Ltd	Materials	Yes	Board	Yes	Yes	Yes	Yes	No	Absolute
Australia & New Zealand Banking Group Ltd	Financials	Yes	Board	No	Yes	Yes	Limited	Yes	Absolute
National Australia Bank Ltd	Financials	Yes	Board	No	Yes	CDP only	No	Yes	Absolute
Wesfarmers Ltd	Consumer Staples	Yes	Board	No	Yes	Yes	No	No	No
Woolworths Ltd	Consumer Staples	Yes	Board	No	Unclear	CDP only	No	No	Absolute
Macquarie Group Ltd	Financials	Unclear	Board	No	Yes	CDP only	No	No	No
Rio Tinto Ltd	Materials	Yes	Board	No	Yes	CDP only	No	No	Emissions intensity
Woodside Petroleum Ltd	Energy	Yes	Board	No	Yes	Yes	No	No	Emissions intensity
Transurban Group	Industrials	Yes	Board	No	Unclear	Yes	No	Yes	Absolute
Scentre Group	Real Estate	Yes	Board	No	Yes	CDP only	No	No	No
South32 Ltd	Materials	Yes	Board	Yes	Yes	Yes	Yes	No	Absolute
Westfield Corp	Real Estate	Yes	Board	No	No	CDP only	No	No	No
Suncorp Group Ltd	Financials	Yes	Board	No	Yes	CDP only	No	No	No
Amcor Ltd	Materials	Unclear	Board	No	Unclear	CDP only	No	Yes	Emissions intensity
Newcrest Mining Ltd	Materials	Unclear	Board	No	Yes	Not disclosed	No	No	No
Insurance Australia Group Ltd	Financials	Yes	Board	No	Unclear	Limited	No	No	Absolute
Origin Energy Ltd	Energy	Yes	Board	No	Yes	CDP only	Limited	No	Absolute
AGL Energy Ltd	Utilities	Yes	Board	Yes	Yes	Yes	Yes	Yes	Absolute
Sydney Airport	Industrials	Yes	Board	No	Unclear	Not disclosed	No	No	Emissions intensity
AMP Ltd	Financials	Yes	Board	No	No	CDP only	No	No	No
QBE Insurance Group Ltd	Financials	Unclear	Board	No	Unclear	Limited	No	No	No
Goodman Group	Real Estate	Unclear	Board	No	Yes	Limited	No	No	No
Treasury Wine Estates	Consumer Staples	Yes	Not disclosed	No	Yes	Limited	No	No	No
Stockland	Real Estate	Yes	Board	Yes	Yes	Yes	Yes	Yes	Absolute
Oil Search Ltd	Energy	Yes	Board	No	Yes	Yes	Yes	No	No
James Hardie Industries Plc	Materials	Unclear	Not disclosed	No	Yes	CDP only	No	No	No
Aurizon Holdings Ltd	Industrials	Yes	Board	Yes	Yes	Yes	Yes	No	Emissions intensity
Dexus	Real Estate	Yes	Board	Yes	Yes	Yes	No	No	Absolute
Santos Ltd	Energy	Yes	Board	No	Yes	Yes	Yes	No	Emissions intensity
Lend Lease Group	Real Estate	Yes	Board	Yes	Yes	Limited	No	No	Emissions intensity
APA Group	Utilities	Yes	Board	Yes	No	CDP only	No	No	No
GPT Group	Real Estate	Yes	Board	No	Yes	CDP only	No	No	No
Boral Ltd	Materials	Yes	Board	No	Unclear	Limited	No	No	No
Medibank Private Ltd	Financials	Yes	Other executive	No	No	Not disclosed	No	No	No
Caltex Australia Ltd	Energy	Yes	Board	No	No	CDP only	No	No	No
Qantas Airways Ltd	Industrials	Yes	Board	No	Yes	CDP only	No	No	Absolute
Vicinity Centres	Real Estate	Yes	Board	Yes	Yes	Yes	No	No	Absolute
Mirvac Group	Real Estate	Yes	Board	Yes	Yes	Limited	No	Yes	Absolute
Bluescope Steel Ltd	Materials	Yes	Not disclosed	No	Yes	Not disclosed	No	No	No
Fortescue Metals Group	Materials	Yes	Board	No	No	Limited	No	No	Emissions intensity
Challenger Ltd	Financials	Yes	Not disclosed	No	Yes	Not disclosed	No	No	No
Orica Ltd	Materials	Yes	Board	No	No	Yes	Limited	No	Emissions intensity
Incitec Pivot	Materials	Unclear	Board	No	Yes	Yes	No	No	No
Alumina Ltd	Materials	Yes	Board	No	Yes	Yes	No	Yes	Absolute
Bendigo And Adelaide Bank Ltd	Financials	Yes	Other executive	No	No	Not disclosed	No	No	No
The A2 Milk Company Ltd	Consumer Staples	No	Board	No	No	Not disclosed	No	No	No
Cimic Group Ltd	Industrials	Yes	Board	No	No	Yes	No	No	No
Bank Of Queensland Ltd	Financials	Unclear	Not disclosed	No	No	Not disclosed	No	No	No
Coca-Cola Amatil Ltd	Consumer Staples	Yes	Board	No	Yes	CDP only	No	No	No
Iluka Resources Ltd	Materials	Unclear	Not disclosed	No	Yes	Not disclosed	No	No	No
Spark Infrastructure Trust	Utilities	No	Not disclosed	No	No	Not disclosed	No	No	No
Downer EDI Ltd	Industrials	Yes	Board	Yes	No	Yes	No	No	No
Orora Ltd	Materials	Unclear	Board	No	Yes	CDP only	No	No	Emissions intensity
CYBG Plc	Financials	No	Not disclosed	No	No	Not disclosed	No	No	No
Macquarie Atlas Roads Ltd	Industrials	No	Not disclosed	No	No	Not disclosed	No	No	No
Magellan Financial Group Ltd	Financials	Yes	Other executive	No	No	CDP only	No	No	No
Northern Star Resources Ltd	Materials	No	Not disclosed	No	Unclear	Not disclosed	No	No	No
Qube Holdings Ltd	Industrials	No	Not disclosed	No	No	Not disclosed	No	Yes	No
Janus Henderson Group Plc	Financials	No	Not disclosed	No	Unclear	Not disclosed	No	No	Emissions intensity
IOOF Holdings Ltd	Financials	Unclear	Not disclosed	No	Unclear	Not disclosed	No	No	No
Ausnet Services Ltd	Utilities	Unclear	Not disclosed	No	No	Not disclosed	No	No	No
Evolution Mining Ltd	Materials	No	Not disclosed	No	No	Not disclosed	No	No	No
Duluxgroup Ltd	Materials	Yes	Not disclosed	Yes	No	Limited	No	No	No
BT Investment Management Ltd	Financials	Yes	Board	No	No	Limited	No	No	No
Charter Hall Group	Real Estate	Yes	Board	No	Unclear	Limited	No	No	Absolute
OZ Minerals Ltd	Materials	No	Board	No	Yes	Limited	No	No	No
Adelaide Brighton Ltd	Materials	Unclear	Board	No	Yes	Not disclosed	No	No	No
CSR Ltd	Materials	Yes	Board	No	Yes	Limited	No	No	Absolute
Perpetual Ltd	Financials	Unclear	Other executive	No	No	CDP only	No	No	No
Investa Office Fund	Real Estate	Yes	Board	No	Unclear	Not disclosed	No	Yes	Absolute
Graincorp Ltd	Consumer Staples	Unclear	Board	No	Unclear	Not disclosed	No	No	No

RECOMMENDATIONS

These findings paint a clear picture of a systemic lack of climate risk disclosure from Australia's largest, most highly exposed companies, and suggest a failure in the current corporate regulatory system. Voluntary disclosure of climate risk is simply not working.

- Regulators should mandate a comprehensive, universal climate risk disclosure framework, i.e. TCFD recommendations;
- Investors should hold companies accountable, and escalate climate risk disclosure in their engagement programs;
- Companies should educate themselves about the need to take action and disclose.



**MARKET
FORCES**



**Friends of
the Earth**

Market Forces is an affiliate project of Friends of the Earth Australia.

312 Smith Street, Collingwood, Victoria, 3066.

www.marketforces.org.au www.foe.org.au