This update to Market Forces’ March 2018 study reveals Australia’s largest companies are failing to disclose detailed climate risk assessments and strategic responses. The need for drastic climate action is now more urgent than ever. Investors must demand companies produce transition plans that are consistent with the climate goals of the Paris Agreement being met, and divest from companies that cannot or will not.
Market Forces analysed the public disclosures of 72 ASX100 companies that operate in sectors facing the highest levels of climate risk, according to the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD), an initiative backed by investors managing over AU$100 trillion.

**Methodology**

Targets and KPIs described in Remuneration Reports contained within Annual Reports were assessed, with further clarity drawn from CDP responses. Remuneration Reports typically include senior executives only (Board, CEO and their direct reports).

* Percentages may not add to 100 due to rounding.

**Risk Management**

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

- 57% Yes
- 4% Unclear
- 39% No

All companies in this study operate in sectors defined by the TCFD as particularly impacted by climate risks and opportunities. Yet just 57% clearly identify climate change as a material business risk, only a slight improvement on the 52% in 2018.

The findings are particularly concerning in light of a September 2018 ASIC report, which found many companies were breaking the law by failing to adequately consider and disclose climate risk. Fellow regulators APRA and the ASX Corporate Governance Council, as well as prominent lawyers, have also been vocal in their calls for improved climate risk disclosure.

**Methodology**

Climate risk (or the transition/physical impacts of climate change) must be explicitly mentioned as a principal or material risk in the annual report.

**Governance**

**Who has responsibility for managing climate risk?**

- 86% Board
- 4% Non-board level executive
- 10% No disclosed responsibility

The TCFD recommends that companies “describe the board’s oversight of climate-related risks and opportunities.”

86% of companies now place overall responsibility for managing climate risk with the board, a significant improvement on the 73% that did so in 2018. However, the findings in the Science, Risk Management, and Strategy categories of this study suggest many of these boards are failing to act on their climate risk responsibilities.

**Methodology**

To demonstrate acceptance of climate science, the company must unequivocally acknowledge 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.

**Science**

**Does the company accept the science of climate change?**

- 65% Unequivocal acceptance
- 25% Unclear language
- 10% No formal acknowledgement

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.

Despite overwhelming evidence of the devastating impacts of climate change and the urgent need for action, companies’ public acceptance of climate science has not improved since 2018.

**Governance**

**Does remuneration encourage emissions reduction?**

- 32% Yes
- 13% Unclear
- 56% No*

The proportion of companies remunerating executives to reduce GHG emissions has doubled since March 2018. Given remuneration packages are designed to drive behaviour, rapid increase must continue if we are to see meaningful action to tackle emissions and reduce transition risk.

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**

‘Detailed’ disclosure means a discussion of the risks and opportunities posed by climate change, including the expected severity and likelihood of financial impacts, and the timeframe in which these may arise.
Strategy

Has the company disclosed climate change scenario analysis?

Progress on what is perhaps the most important of the TCFD’s recommendations has been glacial, with just 14% of companies providing at least partial scenario analysis. This is only a marginal improvement from 10% a year ago.

If executed well, scenario analysis can provide clear measures of a company’s future viability in situations where the goals of the Paris Agreement are met. 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

Disclosures graded as follows:

* Yes—disclosure of scenario analysis that considers a range of scenarios (including a 2°C or lower scenario), provides quantitative data, and covers the company’s business comprehensively

* Partial—disclosure of scenario analysis that considers a range of scenarios (including a 2°C or lower scenario), provides quantitative data, but does not cover the entire business or operations of the company

* Limited discussion—disclosure that provides some description of the exposure to climate risk faced under different scenarios, but without quantitative information that allows investors to assess the extent of risk faced

* No—where none of the above are met

Does the company have a clear plan to reduce emissions?

While the proportion of companies with a clear plan to reduce their carbon emissions has risen from 16% to 24% over the past year, that figure is still far too low. The Paris Agreement requires a carbon-neutral global economy by 2050, and developed economies like Australia are expected to lead the way and decarbonise even sooner.

Companies wanting to retain investor support must disclose clear plans to reduce emissions in line with the Paris climate goals. While a number of companies claim to support the Paris goals, these statements are rarely backed up with solid commitments and measurable targets.

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?

With more information available than last year, more companies’ emissions targets were found to be based on intensity rather than absolute reductions. Emissions intensity targets should be coupled with absolute targets that match the decarbonisation pathway required to meet the Paris climate goals. Just over half of the companies studied still have no emissions reduction targets.

Methodology

Where companies have set both absolute and intensity reduction targets, we have acknowledged the absolute target.

* Percentages may not add to 100 due to rounding.

Does the company disclose its emissions?

The proportion of companies reporting scope 1, 2 and 3 emissions increased from 38%, but still sits at less than half. For many companies, such as fossil fuel producers, scope 3 emissions represent their greatest exposure to transitional climate risk.

Companies should disclose emissions for the current year and at least the previous year (preferably 3-5 years) in mainstream reporting. Emissions reporting should demonstrate reductions over time, in line with the decarbonisation pathway required to meet the Paris climate goals.

Methodology

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

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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 disclosure across these ASX100 companies was found to be largely superficial, leaving investors and the public in the dark about the particular risks climate change poses to individual companies and how these risks are being managed, if at all.

Investors must demand companies produce transition plans that demonstrate their ongoing viability in a range of scenarios, which reveal the company’s exposure to physical and transitional climate risks. A company that is unable or unwilling to do so must face divestment.

### KEY FINDINGS

Of the 72 ASX100 companies with high climate risk exposure:

- 57% identify climate change as a material business risk
- 32% detail climate risks and opportunities in mainstream reporting
- 14% disclose detailed climate change scenario analysis
- 24% disclose an emissions reduction plan
- 22% have set an absolute emissions reduction target

### Metrics and Targets

Has the company set emission reductions targets? | Yes | Unclear | No
---|---|---|---
Commonwealth Bank of Australia | Yes | | 
BHP Billiton Ltd | Yes | | 
Westpac Banking Corporation | Yes | | 
Australasia & New Zealand Banking Group Ltd | Yes | | 
National Australia Bank Ltd | Yes | | 
Macquarie Group Ltd | Yes | | 
Woodsmen Group Ltd | Yes | | 
Transurban Group | Yes | | 
Woodside Petroleum Ltd | Yes | | 
Rio Tinto Ltd | No | | 
Scentre Group | Yes | | 
Goodman Group | Yes | | 
Sumco Group Ltd | Yes | | 
Insurance Australia Group Ltd | Yes | | 
Newcrest Mining Ltd | Yes | | 
South32 Ltd | Yes | | 
Amcor Ltd | Yes | | 
Coles Group | No | | 
Sydney Airport | Yes | | 
QBE Insurance Group Ltd | Yes | | 
ASX Limited | Yes | | 
Origin Energy Group Ltd | Yes | | 
Santos Ltd | Yes | | 
Oil Search Ltd | Yes | | 
Daein Ltd | Yes | | 
APA Group | Yes | | 
Vicinity Centres | Yes | | 
Treasury Wine Estates | Yes | | 
Garden City Ltd | Yes | | 
GPT Group | Yes | | 
Stockland | Yes | | 
Antacoma Holdings Ltd | Yes | | 
Mirvac Group | Yes | | 
AMP Ltd | Yes | | 
Coles Australasia Ltd | Yes | | 
The A2 Milk Company Ltd | Yes | | 
James Hardie Industries Plc | Yes | | 
Medibank Private Ltd | Yes | | 
Orca Ltd | Yes | | 
Alah Ltd | Yes | | 
Coca-Cola Amatil Ltd | Yes | | 
Injune Ltd | Yes | | 
BlueScope Steel Ltd | Yes | | 
Boral Ltd | Yes | | 
Challenger Ltd | Yes | | 
Austral Services Ltd | Yes | | 
Evolution Mining Ltd | Yes | | 
Bender and Adelaide Bank Ltd | Yes | | 
Northern Star Resources Group Ltd | Yes | | 
Umbil-Rodamco-Westfield | Yes | | 
Atlas Arteria | Yes | | 
Magpie Creek Financial Group Ltd | Yes | | 
Whitewash Coal Ltd | Yes | | 
Qube Holdings Ltd | Yes | | 
Bank of Queensland Ltd | Yes | | 
Orca Ltd | Yes | | 
Spark Infrastructure Trust | Yes | | 
Downer EDI Ltd | Yes | | 
Adelaide TAFE Ltd | Yes | | 
Inuka Resources Ltd | Yes | | 
Charter Hall Group | Yes | | 
CVRD Ltd | Yes | | 
OZ Minerals Ltd | Yes | | 
Duluxgroup Ltd | Yes | | 
Penalty Group Ltd | Yes | | 
IOOF Holdings Ltd | Yes | | 
Janus Henderson Group Plc | Yes | | 
CSR Ltd | Yes | 

*Committed to disclosing scenario analysis in 2019.

**Investing in the dark**
RECOMMENDATIONS

- Companies exposed to transitional climate risk must produce transition plans, detailing how the company will remain viable in a scenario where the climate goals of the Paris Agreement are met.

- Companies exposed to physical climate risk must disclose detailed assessments of these exposures, and strategies to mitigate the risks.

- Investors must demand the above disclosures, and divest from companies that have no place in an emissions reduction scenario that is consistent with the Paris climate goals.