INVESTING IN THE DARK
2019

Australian companies are still failing to properly disclose climate risk

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

FINDINGS

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.

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.

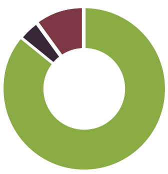
Despite overwhelming evidence of the devastating impacts of climate change and the urgent need for action, companies' public acceptance of climate science has not improved since 2018.

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.

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.

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.

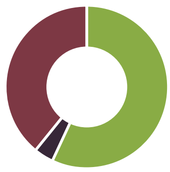
Methodology

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.

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

- **32%** Detailed discussion in mainstream annual reporting
- **18%** Detailed discussion in CDP response only
- **33%** Limited discussion
- **17%** No discussion

These findings are indicative of the state of climate risk disclosure in Australia. Many companies mention climate risk in broad terms, but far too few have discussed the particular impacts climate change could have on their business, and how these are being managed.

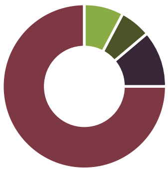
A key tenet of the TCFD recommendations is that detailed, decision-useful climate risk information be included in mainstream financial reporting that is readily accessible to investors, regulators and the wider public.

Methodology

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

Strategy

Has the company disclosed climate change scenario analysis?



- 8% Yes
- 6% Partial
- 11% Limited discussion
- 75% No

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.

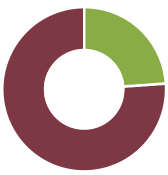
If executed well, scenario analysis can provide clear measures of a company's future viability in situations where the goals of the Paris Agreement are met. This is intended to encourage companies to understand that 'business as usual' is not a sustainable model. In turn, investors are able to determine 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?



- 24% Yes
- 76% No

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.

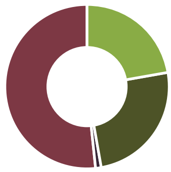
Companies wanting to retain investor support must disclose clear plans to reduce emissions in line with the Paris climate goals. While a number of companies claim to support the Paris goals, these statements are rarely backed up with solid commitments and measurable targets.

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?



- 22% Absolute
- 25% Emissions intensity
- 1% Unclear
- 51% No*

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?

- 47% Scope 1, 2 and 3
- 42% Scope 1 and 2
- 11% No

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

Shining a light on

CLIMATE RISK TO ASX100 COMPANIES

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. Any 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**

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

*Committed to disclosing scenario analysis in 2019.

Findings correct as of 31 December 2018.

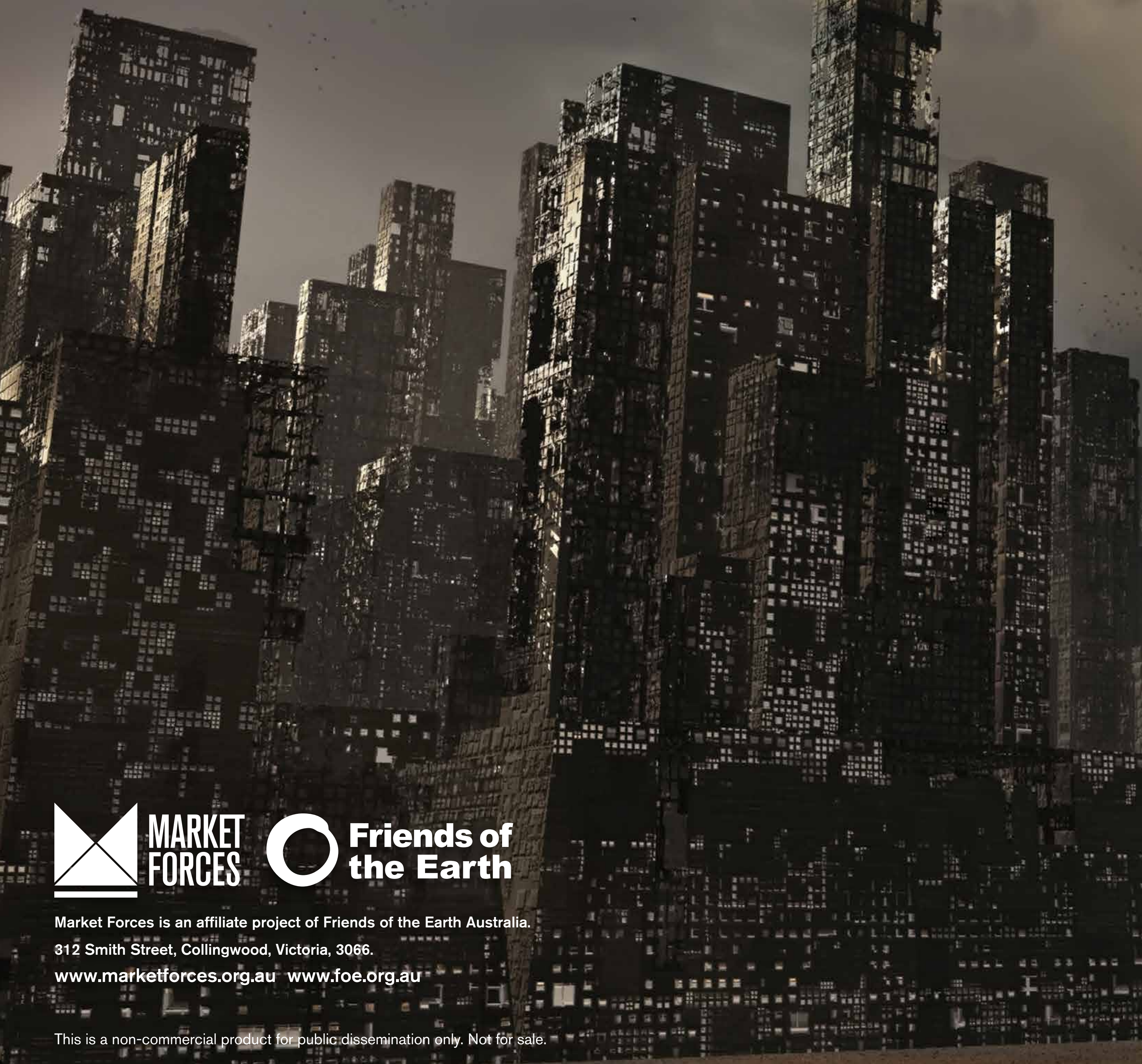
FIND OUT MORE: MARKETFORCES.ORG.AU/ASX100-CLIMATE-RISK

INVESTING IN THE DARK

MARKET FORCES

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



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