Recommendations of the Task Force on Climate-related Financial Disclosures – Review of Local Relevance

AUSTRALIA
Foreword

Private sector action is critical to reducing greenhouse gas emissions, enabling the transformation to a low carbon future, and achieving the objectives of the Paris Agreement. In Australia, demand for information on environmental, social and governance (ESG) information and methods, including the consideration and disclosure of climate risk has been on the rise. Recent guidance from the Australian Prudential Regulation Authority (APRA) identified climate risks as “distinctly financial in nature” with “many of these risks foreseeable, material and actionable now”.\(^1\) Moreover, the Australian Government recently provided its 'in principle' agreement to certain recommendations provided by the Senate Economics Committee on \textit{Carbon Risk: A burning Issue}; \(^2\) urging both the Australian Securities and Investment Commission (ASIC) and the Australian Securities Exchange (ASX) to provide appropriate guidance on disclosing carbon risk; and confirming that the provisions of the Corporations Act 2001 do not 'impede' companies from compliance with the new global guidelines provided by the Task Force on Climate-related Financial Disclosures (TCFD).\(^3\)

Although momentum is increasing, there remains more work to be done on the part of regulatory authorities in addressing the lack of explicit legislative provisions on whether, when and how companies should disclose climate risk. Currently, there is “significant variation in the approach adopted by Australian Stock Exchange (ASX)-listed companies”\(^4\) with respect to climate disclosure. Companies currently do not have guidance on how to transfer the TCFD recommendations into responsible, comparable and transparent business practice and how to align these efforts with their current disclosure obligations.

This Report acts as an important step in that effort, showcasing: (i) how the standards recommended by the TCFD are aligned with Australia’s current regulatory framework; (ii) that the TCFD recommendations are consistent with the current regulations and companies acting in accordance with the TCFD recommendations will not be acting in contravention of domestic requirements; and (i) there is a clear need for regulatory reform to support businesses in navigating the suite of disclosure laws, corporate regulations and voluntary codes in implementing the TCFD recommendations and to enable businesses to do so in a comparable manner.

Offering a comprehensive review of the compatibility of Australia’s corporate regulatory framework with the TCFD recommendations, this Report will serve as a useful tool for both policy makers and Australian businesses in forging a new approach to climate risk disclosure and one that ensures our continued engagement with, and contribution to, the objectives of the Paris Agreement.

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\(^1\) Geoff Summerhayes, ‘Australia’s new horizon: Climate change challenges and prudential risk’ (Speech, 17 February 2017, Insurance Council of Australia Annual Forum, Sydney).


\(^4\) Noel Hutley and Sebastian Hartford-Davis (commissioned by Centre for Policy Development and Future Business Council), ‘Climate Change and Directors’ Duties’ (Memorandum of Opinion, Minter Ellison, 7 October 2016) 19 [45].

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1. Introduction: Investors and Climate Disclosure

Why does climate disclosure matter to investors: Without better climate disclosure, global investors cannot manage the physical and transition risks associated with climate change for their clients and beneficiaries. Investor Action on Climate Change (a PRI report) found that in 2017, 74% of asset owners were acting on climate change and saw it as one of the most important long term trends for investment. In Australia, the “foreseeability” of climate-related financial risks has been stressed in two pivotal legal Memorandums of Opinion and by the Australian Prudential Regulatory Authority (APRA) (both discussed further below). Australian investors have called for enhanced disclosure on climate change for several years.

The FSB Taskforce on Climate-related Financial Disclosures: In June 2017, the industry-led FSB Taskforce on Climate-related Financial Disclosures (TCFD) released its final recommendations. These provide a framework for financial disclosures by companies and investors, guidance for sectors and uses of scenario analysis. Globally, nearly 400 investors representing US$22 trillion in assets under management have publicly called on the G20 to support the Paris Agreement, drive investment into the low carbon transition and support the TCFD. The key recommendations made by the TCFD across the core areas of disclosure are summarised below.

Table 1: Summary of TCFD Disclosure Recommendations for All Industries

<table>
<thead>
<tr>
<th>Governance</th>
<th>Strategy</th>
<th>Risk Management</th>
<th>Metrics and Targets</th>
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<tbody>
<tr>
<td>Disclose the organization’s governance around climate-related risks and opportunities.</td>
<td>Disclose the actual and potential impacts of climate-related risks and opportunities on the organization’s business, strategy, and financial planning where such information is material.</td>
<td>Disclose how the organization identifies, assesses, and manages climate-related risks.</td>
<td>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.</td>
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**Recommendations and Supporting Recommended Disclosures**

- a) Describe the board’s oversight of climate-related risks and opportunities.
- b) Describe management’s role in assessing and managing climate-related risks and opportunities.
- c) Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.
- a) Describe the organization’s processes for identifying and assessing climate-related risks.
- b) Describe the organization’s processes for managing climate-related risks.
- c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization’s overall risk management.
- a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.
- b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
- c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

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2. Why Review Australia

As governments begin work to implement their Nationally Determined Contributions (NDCs) under the Paris Agreement, disclosure and transparency is a critical first step in climate action on the part of the private sector and achieving these goals. Australia’s NDC targets, coupled with threats of climate litigation and increasing shareholder action are driving the importance of climate risk disclosure for Australian companies; setting the course for a new future for companies and investors in progressing Australia’s transformation to a low carbon economy.

**Australia’s Paris Agreement commitments and the transition to a low carbon future:** Australia’s NDC includes an emissions reduction target of reducing GHG emissions by 26–28% below 2005 levels by 2030 (see Appendix 1 for further detail on Australia’s NDC commitments). This represents just over a 50% reduction in emissions per capita and a 64–65% reduction in the emissions intensity of the Australian economy from 2005 levels and until 2030. The Australian Government maintains that the “target is a fair contribution for Australia” and that Australia will meet its 2030 target “through policies built on its proven direct action approach”.

Irrespective, action on the part of the private sector, and in particular, taking into account the inherent transition and physical climate risks that face Australian businesses, is imperative for Australia in meeting its NDC and transitioning to a low carbon economy. This represents an opportunity for the private sector to create this new economy and to “secure their future in doing so” through the critical first step of disclosing climate risk and thereby directing companies, investors and governments in realising this transformation.

**Australian Senate Inquiry into Carbon Risk Disclosure:** Australian investors have historically been very active in the climate change debate. This includes PRI signatories and members of the Investor Group on Climate Change (IGCC). Recognising the importance of disclosure, the Australian Senate conducted an inquiry into the matter of carbon risk disclosure in June 2016. The Australian Senate Economics Reference Committee Inquiry, (Senate Inquiry) found that Australia, being a resource dependent economy, is "arguably particularly highly exposed to carbon risk". This is largely due to:

1. coal being Australia’s second biggest export (after iron ore), and natural gas being Australia’s fifth biggest export. Although there will be some level of continuing need for coking coal, both thermal coal and natural gas are likely to see reductions in demand as the Paris targets are implemented, thereby contributing to transition climate risk;
2. agricultural productivity in Australia is at risk, with an increase in average temperatures of more than 2°C likely to cause the majority of agriculture in the Murray-Darling basin to be wiped out;
3. domestic tourism (including significant tourist attractions like the Great Barrier Reef), are also increasingly at risk due to impacts of climate change, and

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14 The TCFD defines transition risk as the risks associated with the extensive policy, legal, technology, and market changes that may be needed in order to address mitigation and adaptation requirements related to climate change when transitioning to a lower-carbon economy.
4. A large component of Australia’s savings is held by superannuation/pension funds, which have a heavy weighting towards carbon-intensive equities (compared to the rest of the world) and relatively high allocations to domestic companies, particularly banks and resources companies that are operating in sectors where climate is more likely to be a material risk factor. In this regard, Australian pension funds in particular are “under increasing pressure to consider climate change impacts within their portfolios in order to safeguard their members’ savings.” However, the average Australian pension fund still maintains investments in the causes of climate change, leaving it exposed to carbon risk, with the risk of fossil fuel assets becoming stranded.

The threat of climate litigation: There is an increasing trend in litigation concerning climate risk disclosure. This is particularly the case in the US. Recent examples of applying current corporations and securities laws in pursuing corporate governance and climate risk disclosure litigation include:

- Peabody Coal being pursued in the Courts for stating that it could not estimate the impact of climate change on its business despite conducting sophisticated internal modelling (that it had not disclosed).

- In late 2015, the New York and California Attorney-Generals commenced an investigation into Exxon Mobil, claiming that regulatory filings had misrepresented the financial risks to the business from climate change. By April 2016, more than 20 US-State Attorney-Generals had joined this investigation. In September 2016 it was reported that the Securities Exchange Commission were also investigating Exxon Mobil’s accounting and reporting processes with respect to similar concerns. Moreover, in June 2016 a securities fraud class action was filed for failure to disclose climate change risks; alleging that public statements were materially false and misleading. In January 2017 Exxon appointed a climate change scientist to its Board of Directors in response to growing pressure.

- In January 2018 it was reported that the City of New York took legal action against the five largest investor-owned fossil fuel companies, as measured by their contributions to global warming. Legal action was taken “based upon the fundamental principle that a corporation that makes a product causing severe harm when used exactly as intended should shoulder the costs of abiding that harm”. In light of this development, it may be that those companies who are more progressive on climate change and are taking steps to address their impacts, including through disclosure, will be at a lower risk of being sued.

Although not always the case, trends in the American market often influence Australian litigation. A recent example is the case brought by Environmental Justice Australia on 8 August 2017, against Commonwealth Bank of Australia (CBA):

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17 South Pole Group, Submission No 8 to Senate Economics Reference Committee, Carbon Risk Disclosure, 30 March 2016, 4.
18 South Pole Group, Submission No 8 to Senate Economics Reference Committee, Carbon Risk Disclosure, 30 March 2016, 4.
23 Noel Hutley and Sebastian Hartford-Davis (commissioned by Centre for Policy Development and Future Business Council), ‘Climate Change and Directors’ Duties’ (Memorandum of Opinion, Minter Ellison, 7 October 2016) 21 [50].
The proceedings concerned CBA’s failure to sufficiently disclose climate change risk in its 2016 annual report, and that CBA failed to provide a true and fair view of its financial position as required by section 297 of the Corporations Act 2001. It was also alleged that the directors’ report provided as part of CBA’s 2016 annual report, did not adequately disclose climate change risks which is information that CBA members reasonably required to make an informed assessment of the bank’s operations, financial position, business strategies and prospects for future financial years, as required by section 299A of the Corporations Act. The claim sought an injunction to stop CBA making the same omissions in future annual reports.

Although the claim against CBA was eventually withdrawn upon CBA publishing its 2017 annual report which addressed climate change risk, the case demonstrates climate litigation in the context of climate risk disclosure as a real risk for Australian businesses.

In further highlighting the threat of climate litigation in Australia, the legal Memorandum of Opinion on "Climate Change and Directors' Duties" (referred to further at section 4.1 below), emphasized the following salient points of law as reminders to Australian companies of their current disclosure obligations within the context of threats of climate litigation:

- "annual reports constitute and contain representations, which will often become the focus of allegations of misleading and deceptive conduct in company litigation"; and
- "it would be difficult for a director to escape liability for a foreseeable risk of harm to the company on the basis that he or she did not believe in the reality of climate change… The court will ask whether the director should have known of the danger."

**Shareholder Activism:** Australia’s legal regime is one of the most activist friendly in the world. Voters holding just 5% of a company have a right to:

- Put resolutions to a general meeting, including for the appointment or removal (without cause) of the company’s directors.
- Requisition or convene a general meeting to put a resolution to the shareholders.
- Require the company to distribute a statement authored by that shareholder.

In light of this, there has been a significant increase in Australian shareholder activism on disclosure of climate risk over the last few years with not only ‘activist’ shareholders seeking better disclosure but also mainstream and institutional investors demanding the same. Australian shareholders have filed climate risk-focused resolutions with a number of companies listed (or dually listed) in Australia, including Shell, BHP and Rio Tinto (resources sector) and CBA and Australia and New Zealand Banking Group (ANZ) (financial sector). Resolutions requiring better climate disclosure have been successfully
passed by Shell, BP and Rio Tinto; raising the disclosure bar for these corporations, as well as others within their sectors.\textsuperscript{30}

For example, BHP agreed to review its membership of the Minerals Council of Australia, as well as other industry groups, and to clarify how its position on climate and energy policy differs from those bodies. This was in response to a shareholder resolution asking the company to terminate its membership of bodies demonstrating advocacy on policy issues that contradicted the company’s positions since 2012.\textsuperscript{31}

In the financial sector, The Australasian Centre for Corporate Responsibility (ACCR) brought a case against the Commonwealth Bank of Australia (CBA), whose Board had refused to put a number of proposed non-binding resolutions regarding carbon risk disclosure to the AGM.\textsuperscript{32} Although ACCR was unsuccessful, the considerable attention garnered by the case prompted CBA, along with Australia’s other major banks, to significantly improve their disclosure practices.\textsuperscript{33}

3. The Purpose of this Review

PRI - Baker McKenzie Reviews: To support practical implementation of the TCFD’s recommendations, the Principles for Responsible Investment (PRI) and global law firm Baker McKenzie have together produced a series of market reviews. These have already been conducted across Brazil, Canada, the EU, Japan, the United Kingdom, the USA and France.\textsuperscript{34}

The market reviews examine how the TCFD’s voluntary recommendations integrate into existing material risk disclosure regulation and soft law in specific markets, and how investors and companies in those markets can apply them. The market reviews build on the PRI’s \textit{Fiduciary Duty in the 21st Century Country Roadmaps, Global Guide to Responsible Investment Regulation}, and \textit{Montreal Carbon Pledge}.

Globally, PRI has 1,800 signatories, representing nearly US$70 trillion in assets under management. In Australasia, PRI has 155 signatories representing US$1.39 trillion in assets under management. Climate change is a material long-term risk and opportunity for investors, with signatories across markets identifying climate change as the highest priority ESG issue.\textsuperscript{35}

The Australia Review: This review considers how the TCFD’s voluntary recommendations integrate into, and align with, existing regulation and soft law in Australia. Specifically, this review considers:

- Private sector disclosure regulation and guidance for various kinds of companies; and
- Climate change and disclosure-related aspects of superannuation/pension fund regulation.


\textsuperscript{31} The resolution was moved by the Australasian Centre for Corporate Responsibility on behalf of more than 120 shareholders of BHP; Guardian, "BHP agrees to rethink its links to Minerals Council of Australia", 19 September 2017.


\textsuperscript{34} https://www.unpri.org/esg-issues/environmental-issues/climate-change/

4. Private Sector Regulation in Australia

In the early part of 2016, the PRI mapped out all existing responsible investment policy - almost 300 individual policy tools or market-led initiatives, covering the relationship between finance and ESG issues across the globe. These measures can be broadly grouped into corporate disclosure requirements and superannuation fund related regulation. This section looks at both groups of regulation in demonstrating the alignment of Australian regulation with the TCFD recommendations, and areas where further guidance or legislative reform is needed.

This Section also includes a discussion of the legal Memorandums of Opinion released on October 2016 and June 2017 on "Climate Change and Directors' Duties" (Directors' Duties Legal Opinion) and "Superannuation Fund Trustee Duties and Climate Change Risk" (Superannuation Legal Opinion), respectively. These legal Memorandums of Opinions are integral to understanding the application of Australia's current legislative framework to the disclosure of climate risk within the context of existing fiduciary duties.

4.1 Climate Relevant Corporate Disclosure Requirements

Australia's legislative framework does not provide a definition for the scope and components of financially-relevant ‘carbon risk’ for the purposes of disclosure by companies.36

The two most common approaches for Australian companies in disclosing matters relating to carbon risk include adopting a mandatory compliance based approach to emissions reporting (under the National Greenhouse Gas and Energy Reporting Act) or incorporating a broad-based climate change position statement into ESG or sustainability reporting.37 Australian companies also engage in voluntary reporting with a large number of voluntary reporting frameworks being used to varying degrees.38 Although most of these frameworks are international (i.e. CDP being the most widely-used reporting framework),

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36 Investor Group on Climate Change (IGCC), Senate Economics References Committee Inquiry into carbon risk disclosureSubmission by the IGCC, 4 April 2016.
37 Investor Group on Climate Change, Submission No 28 to Senate Economics Reference Committee, Carbon Risk Disclosure, 4 April 2016.
domestic frameworks are also being used, for example, the Asset Owners Disclosure Project (now global but originally developed as an initiative of Australia’s The Climate Institute in 2008).

There are a limited number of Australian companies who have effectively embedded financially relevant carbon risk disclosure into financial reporting in a meaningful way.³⁹ For example, Australia’s four major banks established the Australian Portfolio Carbon Working Group in 2015 specifically to align and improve bank reporting on lending exposure to carbon intensive energy sectors or “financed emissions” which are classified as Scope 3 under NGERS.⁴⁰ Two Australian banks have taken this further and are working with UNEP FI to pilot TCFD reporting.⁴¹

However, with respect to companies that are disclosing climate risk, there still remains “significant variation in the approach...within annual reports. This includes variation between companies operating in the same sector... Australia’s four major banks, for example, have taken different approaches to carbon risk disclosure”.⁴²

There are a number of mandatory regulations and voluntary guidelines that can extend to disclosure of financially relevant climate risk, including through the exercise of director’s duties. As Table 2 shows, these regulations are not inconsistent with the TCFD recommendations, and existing regulation in Australia covers several TCFD recommendation areas.

However, more is required under Australia’s corporate regulatory framework to enable climate risk disclosure in a comparable and comprehensive manner. “Key Conclusions and Practical Actions for Better Climate Disclosure in Australia” are outlined below at Sections 5 and 6.

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⁴⁰ The Portfolio Carbon Initiative is a partnership with 2 degrees Investing Initiative (2DII) and UNEP Finance Initiative (UNEP FI) and develops a series of resources to guide financial institutions in assessing the climate impact of their activities and carbon asset risk; http://ghgprotocol.org/portfolio-carbon-initiative

⁴¹ UNEP FI, Member Banks Representing Many Trillions of Dollars are First in Industry to Jointly Pilot the TCFD Recommendations, 11 July 2017; http://www.unepfi.org/news/industries/banking/eleven-unep-fi-member-banks-representing-over-7-trillion-are-first-in-industry-to-jointly-pilot-the-tcfd-recommendations/

⁴² Noel Hutley and Sebastian Hartford-Davis (commissioned by Centre for Policy Development and Future Business Council), ‘Climate Change and Directors’ Duties’ (Memorandum of Opinion, Minter Ellison, 7 October 2016) 6 [13]. See also Australian Council of Superannuation Investors, Submission No 30 to Senate Economics Reference Committee, Carbon Risk Disclosure, 6 April 2016, 8, and Investor Group on Climate Change (IGCC), Senate Economics References Committee Inquiry into carbon risk disclosure Submission by the IGCC, 4 April 2016.
<table>
<thead>
<tr>
<th>Regulation</th>
<th>Mandatory?</th>
<th>TCFD Recommendation Areas Covered by the Regulation</th>
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<tbody>
<tr>
<td>National Greenhouse and Energy Reporting Act 2007 (Cth)</td>
<td>Yes</td>
<td></td>
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<tr>
<td>The National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Corporations Act 2001 (Cth)</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>ASX Listing Rules</td>
<td>Yes</td>
<td>✓</td>
</tr>
<tr>
<td>ASX Corporate Governance Principles and Recommendations (2014)</td>
<td>No</td>
<td>✓</td>
</tr>
<tr>
<td>FSC Guidance Note No.2 'Blue Book'</td>
<td>No</td>
<td>✓</td>
</tr>
<tr>
<td>Australian Council of Superannuation Investors (ACSI) and FSC ESG reporting Guide for Australian Companies (2015)</td>
<td>No</td>
<td>✓</td>
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National Greenhouse and Energy Reporting (NGER) Act 2007 (Cth): The NGER Act establishes the National Greenhouse and Energy Report Scheme (NGERS). Under NGERS, entities producing greenhouse gas (GHG) emissions above a threshold are required to disclose information on these emissions, energy production and consumption. Specifically, this requires reporting of emissions from facilities under the operational control of the entity and includes Scope 1 (direct) and Scope 2 (indirect emissions i.e. those from consuming purchased energy). Reporting of Scope 3 emissions (indirect emissions from activities i.e. use of products, outsourced activities or waste disposal) is not required. Although this type of disclosure is largely for the purposes of informing government and international policy, the NGERS reporting obligations provide a key piece of information to determine the degree of carbon risk to which a particular emitting company may be exposed, and in this way, are aligned with the TCFD recommendations to disclose targets and metrics.

However, NGERS reporting cannot be relied upon to provide a complete picture of carbon risk exposure, as reporting obligations are only placed on a company's facilities and any of its subsidiaries' facilities if the company is deemed to have operational control. Therefore NGERS reporting does not address "carbon risk exposure embedded in the company's broader value chain, supply chain or fossil fuel reserves, for example, as represented by Scope 3 emissions". Further, from an investor perspective, NGERS reporting does not capture "equity exposures to significant carbon holdings" from lending or investment activities, as these are also considered Scope 3 emissions.

The National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015: The Emissions Reduction Fund is central to the Government's Direct Action Plan to cut GHG emissions to 5% below 2000 levels by 2020 and to 26 to 28% below 2005 levels by 2030. The Emission Reduction Fund's Safeguard Mechanism ensures that emissions reductions purchased by the Government are not offset by significant increases in emissions above business-as-usual levels elsewhere. The Safeguard Rule outlines key elements of a responsible emitter's duty to avoid excess emissions and provides detail on how a responsible emitter can meet that duty. This includes registration, reporting and record keeping. Most facilities covered by the Safeguard Mechanism already report under NGERS, in which case no additional reporting is required. Where data for a facility is not included in a report under the NGER Act, such as a landfill facility operated by a non-constitutional corporation (e.g. public authority), the newly registered entity must begin reporting emissions for their facility in accordance with the NGER Act.

The Corporations Act 2001 (Cth): Listed reporting companies are required to prepare and lodge a financial report and a directors' report each financial year. Further, if a company's operations are subject to particular and significant environmental regulation, the directors' report must give details of the company's performance in that regard. However, as there is no direct liability for companies to reduce emissions in Australia, except for limited obligations imposed under the Safeguards Mechanism, this requirement is unlikely to capture climate-related risk disclosure. Rather the disclosure of climate risk is likely to be captured by section 180(1) on the exercise of directors' duties, and section 299A of the Corporations Act, as referred to below.

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43 Investor Group on Climate Change (IGCC), Senate Economics References Committee Inquiry into carbon risk disclosure Submission by the IGCC, 4 April 2016.
44 Investor Group on Climate Change (IGCC), Senate Economics References Committee Inquiry into carbon risk disclosure Submission by the IGCC, 4 April 2016.
45 Investor Group on Climate Change (IGCC), Senate Economics References Committee Inquiry into carbon risk disclosure Submission by the IGCC, 4 April 2016.
46 Part 5 of the National Greenhouse and Energy Reporting (Safeguard Mechanism) Rule 2015
47 Corporations Act 2001 (Cth) s 282.
48 Corporations Act 2001 (Cth) s 299(1)(f).
Section 180(1) of the Corporations Act also requires directors to exercise their powers and discharge their duties with a degree "of care and diligence" and section 299A(1) requires that a director’s report contain information that members of the listed entity would reasonably require to make an informed assessment of the operations of the entity, and the business strategies and prospects for future financial years. The Directors’ Duties Legal Opinion found that such directors’ duties can extend to a consideration of climate risk to the extent that those risks intersect with the interests of the company, for example in so "far as they present corporate opportunity or foreseeable risks to the company or its business model" (this Legal Opinion is discussed in further detail below). With respect to disclosure, the Corporations Act requires directors to declare that, in their opinion, the financial statements and company notes give a true and fair view of the financial position and performance of the company.

The Corporations Act also applies to superannuation funds, which are required to disclose how ESG considerations are integrated into investment decisions. More detail on these disclosure regulations with respect to superannuation funds is provided at Section 4.2 below.

**Australian Securities and Investment Commission (ASIC) Regulatory Guide 247: Effective Disclosure in an Operating and Financial Review (2013):** Sets out “guidance for directors on providing useful and meaningful information to shareholders or unit holders when preparing an operating and financial review (OFR) in a directors’ report.” The OFR should include discussion of environmental and other sustainability risks where those risks could affect the entity’s achievement of its financial performance or outcomes disclosed, taking into account the nature and business of the entity and its business strategy. Specifically, and taking into account the conclusions made within the Directors’ Duties Legal Opinion referred to below, RG 247.64 imports regard to climate risk disclosure aligned with the TCFD strategy and risk management recommendation areas, whereby:

1. risks are to be described in their context, for example, "why the risk is important or significant, and its potential impact on the entity’s financial prospects”;
2. disclose of risks are to "include any relevant associated analytical comments (e.g. whether the risk is expected to increase or decrease in the foreseeable future)"; and
3. if the "risk relates to factors within the control of management, specify how these factors will be controlled or managed by the entity”.

In addition, for the purposes of submitting an OFR, companies must adopt a timeframe greater than one year. This assists directors in taking into account the well known uncertainties surrounding timeframes for climate risks to materialise.

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49 Corporations Act 2001 (Cth) s 180.
50 Noel Hutley and Sebastian Hartford-Davis (commissioned by Centre for Policy Development and Future Business Council), ‘Climate Change and Directors’ Duties’ (Memorandum of Opinion, Minter Ellison, 7 October 2016) 2 [3.2].
51 Corporations Act 2001 (Cth) ss 295(4) and 297.
54 Overall, an OFR should contain a discussion of the entity’s prospects for future financial years. This is a narrative explaining the financial performance and financial outcomes the entity expects to achieve overall, taking into account its disclosed business strategies and any other relevant factors: Regulatory Guide No 247, 19 [247.60].
55 Australian Securities and Investments Commission, ‘Effective disclosure in an operating and financial review’ (Regulatory Guide No 247, 2013) 19 [247.63].
Directors' Duties Legal Opinion

The Australian legal Memorandum of Opinion, "Climate Change and Directors' Duties", published October 2016, looked specifically at section 180(1) of the Corporations Act with respect to directors' duties obligations to consider climate risk, finding that:

1. climate change risks may be relevant to the exercise of directors' duty of care and diligence to the extent that those risks intersect with the interests of the company;
2. directors are not legally prohibited from taking into account climate change risks (and related economic, environmental and social sustainability risks) where those risks "are, or may be, material to the interests of the company";
3. company directors certainly "can, and in some cases should be considering the impact on their business of climate change risk"; and

"it is conceivable that directors who fail to consider 'climate change risks' now, could be found liable for breaching their duty of care and diligence in the future", and "in some cases should be considering the impact on their business of 'climate change risks'".57

This means that to ensure compliance with their obligations under section 180(1) of the Corporations Act, directors,

"should consider and, if it seems appropriate, take steps to inform themselves of climate-related risks to their business, when and how those risks might materialise, whether they will impact the business adversely or favourably, whether there is anything to be done to alter the risk, and otherwise to consider how the consequences of the risk can be met."58

In addition, it was opined that under the Corporations Act, directors who perceive that climate change does, or does not, present risks to their business should also consider "the adequacy of the disclosure of those risks within the company's reporting frameworks".59

ASX Listing Rules:

Require companies to include in their annual report a "corporate governance statement", disclosing the extent to which it has followed recommendations of the ASX Corporate Governance Council.60 These listing rules are recognised as binding and the Court has jurisdiction to make orders regarding their compliance.61 If the entity has not followed a recommendation, its corporate governance statement must separately identify that recommendation, the period during which it was not followed, and state its reasons for not following the recommendation and what (if any) alternative governance practices it adopted in lieu of the recommendation during that period.62 These recommendations are addressed below.

ASX Corporate Governance Council: Corporate Governance Principles and Recommendations (2014): The Council recommends that companies disclose and identify how they intend to manage material environmental and social sustainability

57 Noel Hutley and Sebastian Hartford-Davis (commissioned by Centre for Policy Development and Future Business Council), 'Climate Change and Directors' Duties' (Memorandum of Opinion, Minter Ellison, 7 October 2016) 3 [3].
58 Noel Hutley and Sebastian Hartford-Davis (commissioned by Centre for Policy Development and Future Business Council), 'Climate Change and Directors' Duties' (Memorandum of Opinion, Minter Ellison, 7 October 2016) 16 [37].
59 Noel Hutley and Sebastian Hartford-Davis (commissioned by Centre for Policy Development and Future Business Council), 'Climate Change and Directors' Duties' (Memorandum of Opinion, Minter Ellison, 7 October 2016) 3 [5].
60 ASX Listing Rules r 4.10.3.
61 Noel Hutley and Sebastian Hartford-Davis (commissioned by Centre for Policy Development and Future Business Council), 'Climate Change and Directors' Duties' (Memorandum of Opinion, Minter Ellison, 7 October 2016) 5 [12].
62 ASX Listing Rules r 4.10.3.
risks. Although the recommendations do not expressly refer to climate risk, the Directors’ Duties Legal Opinion referred to above strongly suggests that this provision would require disclosure of climate risks where those risks are deemed material, thereby importing governance, and risk management disclosures aligned with the TCFD recommendations. Compliance with the Council’s recommendations, although not legally binding, is an option that companies can take under the binding disclosure requirements of the ASX rules (see above) and would be the recommended approach for company directors given the recent legal Memorandums of Opinion and statements from APRA.

ASX Guidance Note 9: Disclosure of Corporate Governance Practices (2016): Recommends that “a listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks”. Material exposure is defined as “a real possibility that the risk in question could substantively impact the listed entity’s ability to create or preserve value for security holds over the short, medium or longer term”. With regard to the Directors’ Duties Legal Opinion discussed above, there is a strong case that this regulation (although not mandatory) extends to governance and risk management climate related disclosure, aligned with the TCFD recommendations.

Financial Services Council (FSC) Guidance Note No.2.00: Blue Book’ (2009): The guidance on corporate governance for fund managers and corporations, known as the ‘Blue Book’, is non-binding and addresses shareowner voting and other issues proposed by public companies in which funds invest. Relevant to ESG considerations for companies, the Blue Book provides that a director's disclosed approach to corporate governance (as part of its annual report):

"include an analysis of the Corporate Governance issues specific to the company so that shareholders understand how the company deals with those issues. If the particular circumstances of a company warrant departure from these guidelines, the company should clearly explain the reason for an alternative approach. A company should also disclose its policies and performance regarding other issues, including its risk management framework and material environmental and social issues."

Similar to ASX Guidance Note 9 above, the Blue Book also imports regard to TCFD recommendations in terms of disclosure of climate risk should it be decided a material environmental issue (see the Directors' Duties Legal Opinion, discussed above).

Australian Council of Superannuation Investors (ACSI) and FSC ESG Reporting Guide for Australian Companies 2015: Provides voluntary reporting guidance for Australian companies. The Guide is to help companies disclose ESG risks to investors in a "consistent and comparable manner across companies and sectors, giving investors and asset owners a fuller understanding of a company’s risk profile and future growth

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63 Recommendation 7.4 of the ASX Corporate Governance Council’s Principles and Recommendations states that “a listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks”.

64 “By requiring listed entities to compare their corporate governance practices with the Council’s recommendations and, where they do not conform, to disclose that fact and the reasons why, Listing Rule 4.10.3 acts to encourage listed entities to adopt the governance practices suggested in the Council’s recommendations but does not force them to do so. It leaves a listed entity with the flexibility to adopt alternative governance practices, if its board considers those to be more suitable to its particular circumstances, subject to the requirement for the board to explain its reasons for adopting those alternative practices instead of the Council's recommendations": ASX Corporate Governance Council, ‘Corporate Governance Principles and Recommendations’ (Principles and Recommendations, 3rd ed, 2014) 4.


67 Financial Services Council, ‘Blue Book: Corporate Governance, A guide for Fund Managers and Corporations’ (Guidance Note No 2.00, 2009).

68 Financial Services Council, ‘Blue Book: Corporate Governance, A guide for Fund Managers and Corporations’ (Guidance Note No 2.00, 2009) 6 [8.2.1].
The Guidance covers climate change disclosure considerations including reporting of GHG emissions and how risks are measured and reported. Although it does not comprehensively address all the TCFD recommendations, it references disclosure that could extend to climate risk governance, risk management, and metrics and targets in alignment with the TCFD disclosure recommendations.

### 4.2 Climate Relevant Superannuation/Pension Fund Regulation

Australia has a pension market with one of the highest growth rates of pension fund assets in the world. Despite this growth, the legal framework for investment decision making has not changed dramatically over recent years. With respect to climate risk, an August 2017 report found that 82 of Australia’s 100 largest superannuation funds “disclose inadequate or no tangible evidence that they have considered the impact of climate risk on their investment portfolios”. Although there are regulations that can extend to climate risk disclosure, more clarity is needed to better guide the sector in implementing the full extent of the TCFD recommendations.

In this regard APRA recently announced that this year it will be surveying regulated entities to better understand emerging best practice, and will be conducting an industry-wide review of climate-related disclosures:

> *So whether due to regulatory action or – more likely – pressure from investors and consumers, Australia’s financial sector can expect to see more emphasis on disclosure around climate risk exposure and management.*

Regulations that can extend to climate related disclosure obligations on superannuation funds in particular are discussed below, including fiduciary duties. Alignments and gaps with regard to implementing the TCFD recommendations are also discussed, and summarised at Table 3 which indicates that existing regulation in Australia covers several TCFD recommendation areas.

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72 Geoff Summerhayes, Executive Board Member Australian Prudential Regulation Authority (APRA), The Weight of Money: A Business Case for Climate Risk Resilience, 29 November 2017.
### Summary Table 3: Alignment of Australian Climate Relevant Superannuation Fund Regulations with TCFD Recommendation Areas

<table>
<thead>
<tr>
<th>Regulation</th>
<th>Mandatory?</th>
<th>TCFD Recommendation Areas Covered by the Regulation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Governance</td>
</tr>
<tr>
<td>Corporations Act 2001 (Cth)</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>ASIC Regulatory Guide 65 (2011)</td>
<td>yes</td>
<td></td>
</tr>
<tr>
<td>FSC Standard 23: Principles of Internal Governance and Asset Stewardship (2017)</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>FSC Standard 20: Superannuation Governance Policy 2013</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Superannuation Industry Supervision Act 1993 (Cth)</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Prudential Practice Guide on Investment Governance (SPS 530) 2013</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>FSC Guidance Note No.2: ‘Blue Book’</td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

**Corporations Act 2001 (Cth):** Section 1013DA sets out the requirements for Product Disclosure Statements (PDS). PDS must be provided by all persons/entities that issue financial products or arrange for the issue of financial products. Regulation 7.9.14C of the Corporations Act provides that PDS must include statements affirming whether or not the product issuer takes into account ESG standards for the purpose of selecting, retaining or realising their investments. If the issuer confirms that they do take ESG standards into account, they must provide certain information about how and to what extent such considerations are taken into account. In regard to the conclusions of the Superannuation Legal Opinion (referred to below), these obligations are likely to capture climate risk considerations, and are thereby aligned with the TCFD’s climate risk governance and related risk management recommendation areas.
ASIC Regulatory Guide 65 (2011): Requires product issuers to disclose whether and how environmental considerations (as well as labour standards and social or ethical considerations) are taken into account in investment decisions in meeting their obligations under section 1013DA of the Corporations Act 2001 and providing a PDS.73

Financial Services Council (FSC) Standard 23: Principles of Internal Governance and Asset Stewardship (2017): Requires asset managers to fulfil fiduciary responsibilities. Specifically, it requires disclosure of approach to considering ESG factors and how these considerations influence investment decisions.74 Similar to the above and taking into account the Superannuation Legal Opinion, this regulation extends to the consideration of the TCFD’s governance related climate risk disclosure recommendation areas.

FSC Standard 20: Superannuation Governance Policy 2013: Requires investment policy to disclose how ESG issues are addressed, as well as a risk management policy.75 This disclosure may occur in the Annual Report, on a section of the Registrable Superannuation Entity (RSE) licensee’s website or a combination of both. A form of disclosure of an ESG Policy and its role in risk management is set out in the Model at Appendix A of the Policy. These standards are aligned with the TCFD climate risk management and governance related disclosure recommendation areas.

Superannuation Industry Supervision Act 1993 (Cth) (SIS Act): Regulates individual trustees, groups of individual trustees, corporate trustees and directors of corporate trustees. The SIS Act provides that a Trustee Director must act in the best interests of “beneficiaries”,76 must exercise due care, skill and diligence in relation to all matters affecting a registrable superannuation entity, and must comply with the “enhanced director obligations in relation to MySuper products.”77 In addition, each trustee of a regulated superannuation fund must ensure that the fund is maintained solely for the benefit of its members.78 This legislative requirement previously sparked some debate as to whether it is legal for funds to consider environmental, social and governance principles, as it had been argued that the sole purpose test prohibits the integration of climate change risk into investment strategies. However, in 2006 the Commonwealth Government’s Parliamentary Joint Committee on Corporations and Financial Services found that “consideration of social and environmental responsibility is in fact so far bound up in long term financial success that a superannuation trustee would be closer to breaching the sole purpose test by ignoring corporate responsibility.”79 This position is further supported by the Superannuation Legal Opinion below; thereby there is considerable legal certainty that the 'sole purpose test' does not prohibit the consideration of climate risk; rather, it demands it. Moreover, a corporate trustee must adhere to "investment covenants" and a trustee director must exercise a reasonable degree of care and diligence to ensure that a corporate trustee carries out the "investment covenants".80 These duties, including adherence to the investment covenants, and their alignment with the TCFD recommendations are further discussed below with respect to the Superannuation Legal Opinion.

74 Became effective and mandatory for FSC Full Members from 1 January 2018; Financial Services Council, ‘Principles of Internal Governance and Asset Stewardship’ (Standard No 23, 2017) 10.
75 Binding on FSC members who are trustees holding a public offer or extended public offer licence to operate an RSE.
76 Section 52A(2)(c).
77 Section 52A(2)(b).
78 Superannuation Investment (Supervision) Act 1993 (Cth), s 62
80 Section 52A(2)(f).
Superannuation Legal Opinion

The Memorandum of Opinion, "Superannuation Fund Trustee Duties and Climate Change Risk", published June 2017, looked at the above provisions of the SIS Act with respect to registrable superannuation entities, finding that:

1. There is "an inherent harmony between the financial effect associated with climate change risk and the cardinal requirement of a trustee to act in the best interests of [a] beneficiary".

2. "Climate change risks can and should be considered by trustee directors to the extent that those risks may intersect with the financial interests of a beneficiary of a superannuation fund."

3. With reference to the SIS Act, trustee directors, "in an appropriate case, [are] to consider climate change risk in order to satisfy the requirements at section 52A(2)(b), in relation to due care, skill and diligence, section 52A(2)(c) in relation to the best interests of beneficiaries, and section 52A(2)(f) in relation to ensuring a corporate trustee carries out the section 52 covenants".

4. It is incumbent on a trustee director, in the appropriate case, to consider climate risk in order to ensure that a corporate trustee carries out the section 52 covenants.81

In terms of when the above duty is activated the authors opined that "in the absence of a factual matrix that bears upon a particular investment decision or investment strategy, it is difficult to speculate when the financial effect of climate change risks may warrant consideration".82 However, in this regard, reference was made to the Prudential Standard SPS 530 Investment Governance 2013 (SPS 530).

SPS 530 mandates the investment governance required of an RSE licensee. Although it does not define risk, it does provide a framework that can be used in determining when the financial effect of climate change risks may warrant consideration. Therefore:

1. when formulating an investment strategy as required by SPS 530, and determining an appropriate level of diversification: "the financial effect of climate change risk factors may need to be identified, so too the sources of return with which such factors are associated;" and

2. "the due diligence involved in an investment selection process may need to be commensurate with any financial effect of climate change risks related to an investment".83

In addition, the Superannuation Legal Opinion referred to the SIS Act importing disclosure of strategy related climate risk considerations with respect to ensuring compliance with the investment covenants which apply to a corporate trustee pursuant to section 52. Specifically, section 52(6) requires the regular review and

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81 Noel Hutley and James Mack (commissioned by Market Forces), ‘Superannuation Fund Trustee Duties and Climate Change Risk’ (Memorandum of Opinion, Environmental Justice Australia, 2017) 5 [10].
development of an "investment strategy for the whole of the entity, and for each investment option offered by the trustee in the entity," having regard to issues including levels of risk, likely return, diversification and the availability of reliable information.

The above findings outlined in the Superannuation Legal Opinion demonstrate the alignment of the SIS Act together with SPS 530, with TCFD recommendations concerning governance, risk management and strategy related climate risk disclosure.

**Prudential Standard SPS 530 Investment Governance (SPS 530) 2013**: Mandates the investment governance framework required of an RSE Licensee and provides enforcement prudential standards. As referred to above in the Superannuation Legal Opinion, these standards can be applied to climate risk in terms of providing a "framework for determining when the financial effect of climate change risks may warrant consideration".

**FSC Guidance Note No.2.00: Blue Book (2009)**: With respect to fund managers, the Blue Book addresses shareowner voting and other issues proposed by public companies in which funds invest. In regard to ESG considerations for fund managers, Guideline 5 provides that fund managers: "Should engage companies on significant environmental and social issues that have the potential to impact on current or future company reputation and performance." PRI has previously recommended that the FSC implement regulatory oversight to support the implementation of the Blue Book and to work with Australian asset managers in strengthening stewardship expectations, including engaging companies on ESG issues. In a similar vein, these stewardship functions should also be extended to working with asset managers on implementing the TCFD recommendations.

### 5. Key Conclusions

Australia's current corporate disclosure legislation is compatible with the adoption of the TCFD recommendations. Australia does not have express legislation capturing the full extent of climate risk disclosure recommended by the TCFD. However, Australian corporations are governed by a number of regulations requiring disclosure of information relevant to operations, financial positions, business strategies and any matter considered to be *material* to the value of an entity's securities.

Recent Memorandums of Opinion have supported the view that current disclosure laws can in fact, and in some cases should, capture consideration and disclosure of climate risk with regard to fiduciary duties. However this is not expressly outlined in the current regulatory framework. Nor is there express guidance on how such disclosure should be managed in order to ensure it is comprehensive and comparable across companies and sectors.

Given Australia's particularly vulnerable position when it comes to the impacts of climate risk, the adoption of a reliable and transparent climate disclosure framework will be a central element to its smooth transition to a low carbon economy and maintaining the stability of financial markets in the meantime. With investor and general public demand for

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84 Section 52(6)(a).
85 Section 52(6)(a). See also Noel Hutley and James Mack (commissioned by Market Forces), 'Superannuation Fund Trustee Duties and Climate Change Risk' (Memorandum of Opinion, Environmental Justice Australia, 2017) 4 [8].
86 Noel Hutley and James Mack (commissioned by Market Forces), 'Superannuation Fund Trustee Duties and Climate Change Risk' (Memorandum of Opinion, Environmental Justice Australia, 2017) 5 [11]. See also Australian Prudential Regulation Authority, 'Investment Governance' (Prudential Practice Guide No SPG 530, 2013) 6 [18(a)].
87 Financial Services Council, 'Blue Book: Corporate Governance, A guide for Fund Managers and Corporations' (Guidance Note No 2.00, 2009).
climate risk disclosure set to continue, there are a number of areas where stakeholders can undertake reforms to support companies in implementing the TCFD recommendations.

6. Practical Actions for Better Climate Disclosure in Australia

**Government:**
- The Government of the Commonwealth of Australia should endorse the TCFD’s recommendations.
- The Government should nominate a single government entity to provide for a coordinated government response to the TCFD recommendations.88
- The Government should also commit to implementing express legislative provisions within Australian corporate law on the requirement for companies to disclose climate risk and how to implement that disclosure in alignment with the TCFD recommendations.89

**Specific Agencies**
- Australian Prudential Regulation Authority (APRA) update SPS 530 (and equivalent prudential standards or guidance applicable to its regulated banks and insurers) to clarify to superannuation funds that climate risks may be material to risk and return analysis. Climate risks therefore should be incorporated alongside other material risk and return factors in investment decision making.90
- The FSC should continue to work with Australian asset managers to strengthen stewardship expectations including implementation of the TCFD recommendations. Stewardship expectations could be formalised through the development of a code that extends this expectation to climate risk disclosure, in alignment with the TCFD recommendations. In addition, Australian asset owners should incorporate such stewardship expectations in the selection, appointment and monitoring of asset managers.91
- In line with the above, FSC consider revising the Blue Book to take into account the TCFD recommendations specifically and to provide practical and comprehensive guidance on their implementation.
- ASIC review its guidance to directors to ensure that it provides a proper understanding of the manifestations of carbon risk including recent Memorandums of Opinion92 and statements from APRA with respect to exercising fiduciary duties. ASIC should also monitor the quality of climate risk disclosure.93

92 See also Recommendation 1, Senate Economics Reference Committee, Parliament of Australia, Carbon risk: a burning issue (2017).
Stock exchange

- ASX should continue to enhance corporate reporting and consider the development of guidance that specifically addresses how to implement the TCFD recommendations. Specifically, ASX should consider providing guidance on the circumstances in which a listed entity's exposure to carbon risk requires disclosure under Recommendation 7.4 of the ASX Corporate Governance Principles and Recommendations.

Companies

- In line with recent guidance issued by APRA and the legal Memorandum of Opinion on Directors' Duties and Climate Change, Australian companies should adopt the TCFD's recommendations as a comprehensive voluntary framework for consistent climate-related disclosures to investors in line with current reporting and disclosure laws. Sharing of good practice will assist in overcoming implementation hurdles, with convergence of reporting frameworks needed in the longer term.

Investors

- Australian asset owners and managers should adopt the TCFD’s recommendations as a useful voluntary framework for climate-related financial disclosures. PRI signatories are encouraged to pilot TCFD recommendations to build internal capacity on TCFD and evolve industry good practice. Signatories can pilot TCFD drawing on the 2018 PRI Reporting Framework pilot climate reporting indicators94 and PRI Guidance on PRI Climate Reporting.95

- To support investor education, trustee boards should ensure capacity and competence on climate-related financial risk and such risk disclosures under the TCFD recommendations.96

Action PRI is taking to drive TCFD implementation in Australia: In 2018, the PRI will support investors in enhancing climate disclosure:

- Active ownership: we are convening collaborative global investor engagement to encourage companies to adopt the TCFD’s recommendations through ClimateAction100+.97 We will encourage regulators and stock exchanges to advance disclosure through the PRI’s Global Policy Reference Group.

- Investment practices: we encourage investor use of company disclosures that are aligned with the TCFD recommendations, and will provide practical guidance on TCFD for asset owners.

- Investor disclosure: the PRI’s Reporting Framework is aligned with the TCFD’s guidance for asset owners and asset managers, thereby supporting the quality of investor ESG reporting to clients and beneficiaries.98

- Addressing barriers around responsibility investment: The PRI has set out its priorities for the next 10 years in its Responsible Investment Blueprint, published in 2017. These include climate action, supporting investors in incorporating ESG issues and challenging barriers to a sustainable global financial system.99

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97 www.climateaction100.org/

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# Appendix 1 - Australia's Nationally Determined Contribution

**Attachment: Australia’s intended nationally determined contribution**

**Target:** 26 to 28 per cent below 2005 levels by 2030

<table>
<thead>
<tr>
<th><strong>Reference point</strong></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base year</strong></td>
<td>2005</td>
</tr>
<tr>
<td><strong>Time frames</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Period covered</strong></td>
<td>2021 – 2030</td>
</tr>
</tbody>
</table>

**Scope and Coverage**

| **Target type** | Absolute economy-wide emissions reduction by 2030, to be developed into an emissions budget covering the period 2021-2030 |
| **Gases covered** | Carbon dioxide (CO₂); Methane (CH₄); Nitrous oxide (N₂O); Hydrofluorocarbons (HFCs); Perfluorocarbons (PFCs); Sulfur hexafluoride (SF₆); Nitrogen trifluoride (NF₃) |
| **Sectors covered** | Energy; Industrial processes and product use; Agriculture; Land-use, land-use change and forestry; Waste |
| **% of base year emissions covered** | 100 per cent of greenhouse gas emissions and removals in Australia’s national greenhouse gas inventory |

**Assumptions and methodological approaches for emissions estimates and accounting**

| **Metrics** | Australia intends to apply 100 year Global Warming Potentials (GWPs) as contained in inventory reporting guidelines, currently IPCC Fourth Assessment Report 100 year GWPs, or as otherwise agreed. |
| **Emissions estimation methodology** | Australia intends to apply the IPCC 2006 Guidelines and IPCC 2013 Revised Supplementary Methods, or as otherwise agreed. |
| **Accounting approach** | Australia intends to account based on UNFCCC inventory reporting categories using a net-net approach. Australia will apply IPCC guidance for treatment of natural disturbance and variation. Australia’s INDC assumes that accounting provisions under the Paris agreement will:  
- Preserve the integrity of the agreement by ensuring claimed emissions reductions are genuine and are not double counted; and  
- Recognise emissions reductions from all sectors. |

Australia reserves the right to adjust our target and its parameters before it is finalised under a new global agreement should the rules and other underpinning arrangements of the agreement differ in a way that materially impacts the definition of our target.
Baker McKenzie helps clients overcome the challenges of competing in the global economy.

We solve complex legal problems across borders and practice areas. Our unique culture, developed over 65 years, enables our 13,000 people to understand local markets and navigate multiple jurisdictions, working together as trusted colleagues and friends to instil confidence in our clients.

About the Principles for Responsible Investment

The PRI works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. The principles have 1,800 signatories globally representing US$ 70 trillion in assets under management.

www.unpri.org

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