



ASIC
Australian Securities &
Investments Commission

Climate risk disclosure by Australia's listed companies

September 2018

Report 593

About this report

This report contains our key observations and findings from a surveillance project examining climate risk disclosure by listed companies in Australia. It sets out some high-level recommendations relating to the consideration and disclosure of climate risk.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

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Overview

Climate change is a foreseeable risk facing many listed companies in the Australian market in a range of different industries. Directors and officers of listed companies need to understand and continually reassess existing and emerging risks (including climate risk) that may affect the company's business. This extends to both short-term and long-term risks.

Listed companies should provide meaningful and useful risk disclosure to enable investors to make fully informed decisions. In some cases, the Corporations Act requires listed companies to disclose material business risks.

We conducted a review of climate risk disclosures:






- by 60 listed companies in the ASX 300
- in 25 recent initial public offering (IPO) prospectuses
- across 15,000 annual reports.

This report sets out our findings and high-level recommendations for listed companies and their directors and advisers on climate risk disclosure.

'Australia's changing climate represents a significant challenge to individuals, communities, governments, businesses, industry and the environment. Australia has already experienced increases in average temperatures over the past 60 years, with more frequent hot weather, fewer colder days, shifting rainfall patterns and rising sea levels. More of the same is expected in the future.'

[Commonwealth Scientific and Industrial Research Organisation \(CSIRO\)](#)

Key findings on climate risk disclosure

-  17% of listed companies in our sample identified climate risk as a material risk in their operating and financial reviews (OFRs).
-  General (as opposed to specific) risk disclosure is not useful for assessing climate risk exposures.
-  Fragmented climate risk disclosure practices make comparisons difficult.
-  The majority of the ASX 100 companies in our sample had, to some extent, considered climate risk to the company's business.
-  There is limited climate-risk-related disclosure outside of the ASX 200.
-  A number of listed companies in our sample intend to adopt the recommendations (either in full or in part) of the Task Force on Climate-related Financial Disclosures (TCFD).

Key recommendations for listed companies

Consider climate risk

Directors and officers of listed companies should adopt a probative and proactive approach to emerging risks, including climate risk.

Develop and maintain strong and effective corporate governance

Strong and effective corporate governance helps in identifying, assessing and managing material risks.

Comply with the law

Section 299A(1)(c) requires disclosure of material business risks affecting future prospects in an OFR, which may include climate change: see [Regulatory Guide 247](#) *Effective disclosure in an operating and financial review* (RG 247).

Disclose useful information to investors

Specific disclosure is more useful than general disclosure. The voluntary framework developed by the TCFD may help listed companies in considering how to disclose material climate risks and what type of information to disclose.

Background

What is climate risk?

The TCFD divided climate-related risks into two main categories, risks related to the *transition* to a lower-carbon economy and risks related to the *physical* impacts of climate change:

- **Transition risks** – transitioning to a lower-carbon economy may entail extensive policy, legal, technology and market changes to address mitigation and adaptation requirements related to climate change.
- **Physical risks** – physical risks resulting from climate change can be acute or chronic. Acute physical risks refer to those that are event-driven, including increased severity of extreme weather events, such as cyclones or floods. Chronic physical risks refer to longer-term shifts in climate patterns (e.g. sustained higher temperatures) that may cause sea level rises or chronic heat waves.

Recent developments

Final report issued by the TCFD

In 2016, the G20 Financial Stability Board established the TCFD, an industry-led task force, to help identify the information needed by investors to appropriately assess and price climate-related risks and opportunities. The TCFD released its [Final report: Recommendations of the task force on climate-related financial disclosures](#) (PDF 2.77 MB) in June 2017 which set out a framework for voluntary, consistent climate-related financial disclosures that would be useful for investors, lenders and the market generally.

A number of listed companies have recently indicated that they intend to commence disclosing climate risk under the TCFD framework (either in full or in part), including, in some cases, adopting the framework's scenario analysis.

Australian Government response to climate risk disclosure and TCFD

In 2017, the Senate Economics References Committee released the [Carbon risk: a burning issue report](#) (Senate Report) which acknowledged that the risks associated with climate change present material risks to Australian businesses. The report also highlighted the importance of adequate climate risk disclosure for investors and set out a number of recommendations around climate risk disclosure, including around the implementation of TCFD reporting.

In March 2018, the Australian Government issued a [Government response](#). The Government welcomed the final report of the TCFD and encouraged stakeholders to carefully consider its recommendations. The Government also suggested that ASIC should consider its high-level guidance on disclosure to ensure it remains appropriate.

Law and policy

Operating and financial review (OFR)

The Corporations Act requires listed entities to prepare a directors' report as part of their annual reporting requirements: see s292(1). The directors' report must contain information that shareholders would reasonably require to make an informed assessment of the entity's operations, financial position and business strategies, and prospects for future financial years: see s299A(1)(c).

[RG 247](#) states that it is likely to be misleading to discuss prospects for future financial years without referring to the material business risks that could adversely affect the achievement of those prospects. This includes climate risk.

Disclosure documents

In Australia, most offers of securities to retail investors require a disclosure document, which is commonly called a prospectus. A prospectus must contain all the information that investors and their professional advisers would reasonably require to make an informed assessment of the assets and liabilities, financial position, and performance and prospects of the company that is to issue the securities: see s710.

In [Regulatory Guide 228 Prospectuses: Effective disclosure for retail investors](#) (RG 228) we state that a prospectus must disclose the risks associated with a company's business model and explicitly cite both environmental and regulatory risk as key categories of risk to be considered by persons preparing a prospectus.

Voluntary disclosures

A significant volume of climate change and climate-risk-related disclosure is provided by listed companies on a voluntary basis, outside of statutory disclosure. Disclosure under the TCFD recommendations, the Carbon Disclosure Project (CDP), and environmental, social and governance (ESG)/sustainability policies are examples of voluntary disclosures. The [Senate Report](#) provides comprehensive analysis of the various disclosure frameworks.

Climate risk is front of mind

48%

of Australian CEOs surveyed by KPMG for its [2018 Global CEO outlook: The Australian perspective report](#) (PDF 1.39 MB) considered environmental/climate change risk as a risk to their organisation's growth.

40%

of Asia Pacific CEOs responding to PwC's [21st CEO survey: The anxious optimist in the corner office](#) (PDF 1.08 MB) reported that they were 'extremely concerned' about the threat posed by climate change and environmental damage to their organisation's growth prospects.

The World Economic Forum's [The global risks report 2018: 13th edition](#) (PDF 8.34 MB) cited failure of climate change mitigation and adaptation as a **top five** global risk in terms of likelihood and impact, and warned of the depth of interconnectedness between environmental risks and other risks.

Climate risk disclosure by ASX 300

Which entities did we look at?

We selected a sample of 60 ASX listed companies from the largest 300 companies by market capitalisation as at 31 December 2017.

We chose a range of different sized companies from within the top 300 companies: 20 companies from the top 100 companies by market capitalisation, 20 companies ranked between 100 and 200 by market capitalisation, and 20 companies ranked between 200 and 300 by market capitalisation. We selected companies which operate across a wide variety of industry sectors rather than just focusing on industry sectors that might be subject to more direct or obvious exposure to climate risk. Each grouping of 20 companies contained a similar proportion of entities from each industry sector.

What did we look at?

We reviewed disclosures in the company's most recent annual report (excluding 2018 annual reports), including the directors' report and the OFR, the company's most recent corporate governance statement, and, if applicable, any sustainability report and/or public climate change policy issued by the company.

First, we focused on whether climate risk had been specifically identified as a material business risk in the OFR (and, if so, how the risk was disclosed). Second, we holistically looked at the climate risk disclosure provided by each of the target companies in the reviewed documents.

How did we define climate risk disclosure?

We focused on the presence of any explicit climate risk disclosure (i.e. specific disclosure on physical or transition risks and/or related climate metrics and targets). We did not consider very general disclosure on 'environmental risks' or 'regulatory risks'.

What did we find?

Table 1 summarises the findings of our surveillance work and highlights the main vehicles for the dissemination of climate risk disclosure used by the companies we reviewed.

Table 1: Climate risk disclosure vehicles used by the ASX 300

Disclosure vehicle	ASX 1–100 20 companies reviewed	ASX 101–200 20 companies reviewed	ASX 201–300 20 companies reviewed
Material risk in the OFR	8 (40%)	1 (5%)	1 (5%)
Annual report, including integrated reports (excludes the OFR)	16 (80%)	7 (35%)	6 (30%)
CDP	14 (70%)	5 (25%)	2 (10%)
ESG, sustainability or climate policy	11 (55%)	9 (45%)	3 (15%)

Note: The table above does not set out all disclosure vehicles we identified but rather the most common and relevant for our purposes. We excluded corporate governance statements because, in most cases, these cross-referenced the other sources identified. Some companies disclosed across multiple vehicles.

Fragmented disclosure practices

- Many listed companies provided voluntary climate risk and climate-change-related disclosure to the market (i.e. beyond statutory disclosures). In some cases, this disclosure comprised a form of narrative disclosure in the annual report (separate to the OFR), a separate ESG report or climate change policy, or was part of a submission to the CDP. A number of companies in our sample reported greenhouse gas emissions and energy production and consumption under the *National Greenhouse Energy Reporting Act 2007*.
- The wide range of vehicles used to convey climate risk disclosure, and the varying forms that disclosure takes, limits the utility of that information for users of the disclosure, particularly those users seeking comparable data across industries or companies. The materials we reviewed highlighted the fragmented and inconsistent nature of disclosures across our sample. For example, for some companies, we were required to consider multiple sources of information to piece together a full picture of the relevant company's climate risk exposure.
- Our review also indicated that many disclosures were too general and not comprehensive enough to be useful for investors. For example, isolated, high-level statements such as (the paraphrased) *'we have considered the impacts of climate change on our business'* do not provide investors with any meaningful insight as to the depth or extent of that consideration.

OFR disclosure

- Only 10 (or 17%) of the listed companies selected explicitly identified climate change or climate risk as a material business risk in the OFR. For these companies the relevant disclosure was consistent with the requirements in [RG 247](#) – although, in some cases, more analytical

commentary and detailed discussion may have helped users of the disclosure better understand the nature and potential consequences of the relevant risk: see paragraph 64 in [RG 247](#).

- We observed that the majority of companies in the ASX 100 sample had considered climate risk in some manner (e.g. 70% of those companies provided disclosure through the CDP). This was less so for companies in the middle and bottom groupings of our sample given that, in a number of those cases, we were unable to locate any express disclosure indicating that climate risk had been considered.

Classification of climate risk

- A recurring observation from our entity-level surveillance was the absence of any broadly consistent approach to defining climate risk or classifying its component parts. It was often difficult to discern whether general references to climate change risk related to physical or transition climate risks or both.

Climate risk disclosure versus climate-related disclosure

- Some disclosures we reviewed combined climate risk disclosure with broader climate-change-related disclosure (such as company position statements on climate change or broader environmental policies). This was particularly the case for some ESG reports or specific climate change policy documents.
- In some of these instances, we found it difficult to clearly identify the *actual* risks to the relevant company's business model, strategy and prospects from the *broader* climate-change-related background information.

Climate disclosure in annual reports and prospectuses

Annual reports: What did we do?

We undertook a high-level review of the prevalence of climate risk and climate-change-related content in annual reports for all listed companies for the calendar years 2011 to 2017 (inclusive). We searched approximately 15,000 reports and analysed the aggregated results across listed companies over time and by market capitalisation.

We defined 'climate change content' as a reference to any of the following key terms: *climate change*, *global warming*, *carbon emission*, *greenhouse gas*, *climate risk* or *carbon risk*.

This is a relatively simplistic approach which did not involve assessing the context within which our key terms were used. Our analysis was not designed to produce qualitative conclusions but rather to provide high-level insight into the prevalence of express disclosure on climate-change-related topics in listed company annual reports.

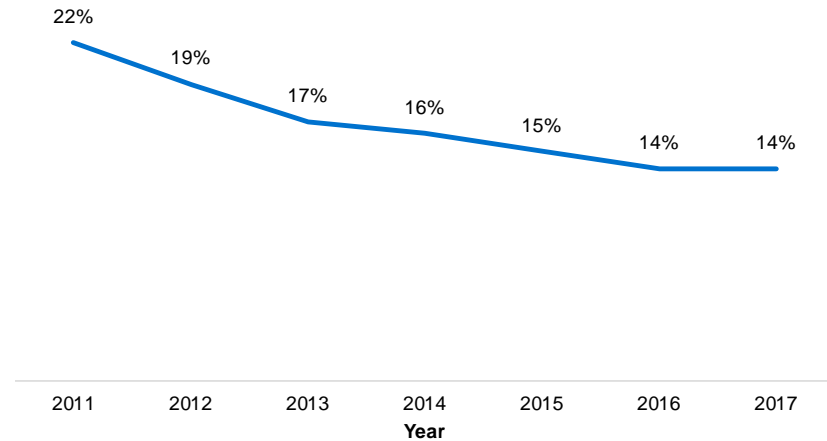
Annual reports: What did we find?

Generally low levels of 'climate change content' in annual reports

We found that few companies included 'climate change content' in their annual reports (only 14% of annual reports in 2017 mentioned our key terms): see Figure 1.

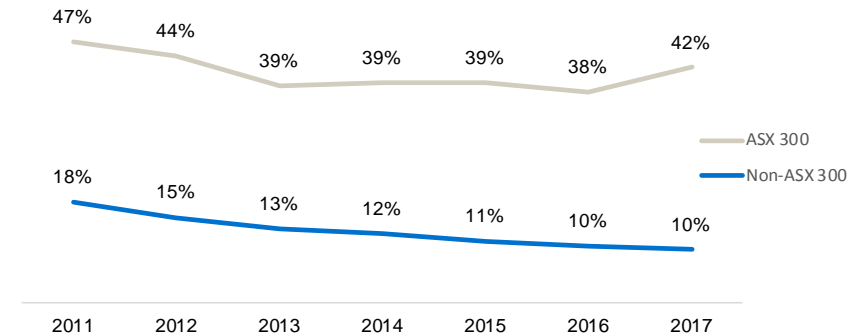
We suspect that higher rates of inclusion of 'climate change content' in annual reports in the earlier part of this decade may be because of transition climate risk at that time in the form of legislative change under the *Clean Energy Act 2011* (Cth).

Figure 1: Percentage of annual reports of all listed companies containing 'climate change content' (2011–2017)



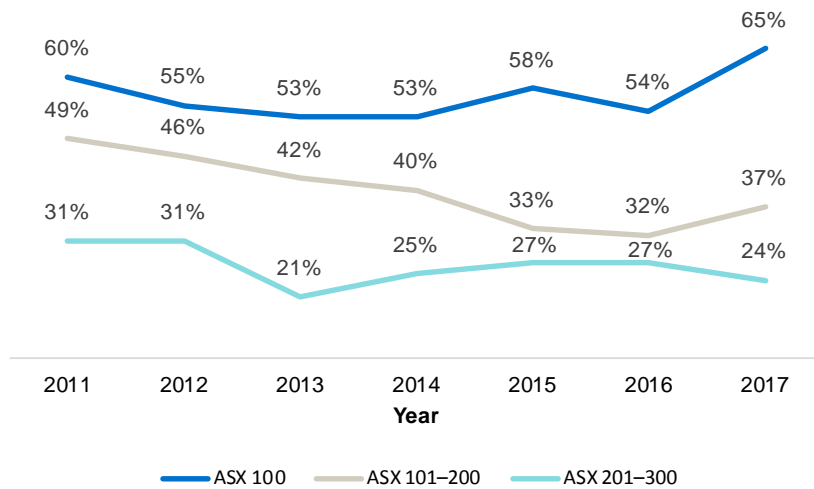
Note: See Table 2 in the appendix for the data shown in this figure (accessible version).

Figure 2: Percentage of annual reports containing 'climate change content' (2011–2017): ASX 300 companies versus non-ASX 300



Note: See Table 3 in the appendix for the data shown in this figure (accessible version).

Figure 3: Percentage of 'climate change content' in annual reports of companies within the ASX 300 (2011–2017)



Note: See Table 4 in the appendix for the data shown in this figure (accessible version).

Annual reports of top 100 companies in the ASX 300 are far more likely to include 'climate change content' than the bottom 200 companies. This may, in part, be because of higher levels of adoption of integrated reporting within that cohort – with more climate change content featuring in ESG disclosures.

'[the annual report] is one of the key sources of information about entities and therefore plays an important role in promoting the accountability of boards. It provides the information required for shareholders to determine whether to continue to invest in the entity.'

Paragraph nine in [RG 247](#)

Prospectuses: What did we do?

We selected a sample of 25 prospectuses lodged during the financial year ended 30 June 2018 for the purposes of an IPO of securities.

For each selected prospectus we reviewed:

- key risk disclosure in the investment overview
- disclosures about the company's business model
- any corporate governance policies incorporated by reference into the prospectus.

Section 710 of the Corporations Act requires a prospectus to contain, among other things, all information reasonably required by investors to make an informed assessment of the prospects of the company that is to issue the securities. It is misleading to discuss the prospects of the company without discussing the risks that may affect their achievement.

Prospectuses: What did we find?

We found limited examples of companies explicitly citing and disclosing climate risk (either physical or transition) as a relevant risk factor. None of the prospectuses we reviewed expressly identified any physical climate risks. One of the prospectuses reviewed cited transition climate risk as a key risk, highlighting public concern around the issue of climate change and the possible impact of regulatory responses as a risk to the relevant company's business model. The relevant disclosure also explained how different regulatory responses may affect the company's operating and financial performance.

However, in the majority of prospectuses reviewed, while both environmental and regulatory risks were generally cited as risks to the business model of the relevant company, there was insufficient detail disclosed to enable an investor to determine if climate risk formed part of

those broader risk categories, and, if so, how and to what extent. In some cases, the lack of specific climate risk disclosure may be warranted, but we generally consider that it is preferable for directors and advisers to focus on providing specific rather than general risk disclosure to investors: see paragraphs 78–82 of [RG 228](#).

A number of the prospectuses reviewed disclosed business models that were in some way connected to the transition to a low-carbon economy (e.g. renewable energy firms). In these instances, the underlying trend of climate change and the opportunities it provided for the company was not explicitly cited. These relevant 'big picture' background factors were implied by the disclosure but not explicitly dealt with.

Furthermore, a number of companies in our sample followed our suggested policy in paragraph 126 of [RG 228](#) and provided potential investors with disclosure advising where the company's corporate governance policies could be located. On review of such policies, we did not identify any specific climate change or climate risk related policies beyond very generalised disclosure on governance and risk management practices.

ASIC's high-level recommendations

Disclosure practices in this area are still evolving, not only in Australia but also globally. Set out below are some high-level recommendations to assist directors in developing their climate disclosure practices.

Consider climate risk

- Directors and senior managers of listed companies need to understand and continually reassess existing and emerging risks that may be applicable to the company's business, including climate risk. This should extend to both short-term and long-term risks.
- Regardless of whether a company follows the disclosure recommendations of the TCFD, we recommend that directors and senior managers consider the TCFD's final report which serves as a useful reference for climate risk and its assessment, governance and management.

Strong and effective corporate governance

- Strong corporate governance facilitates better information flow within a company and facilitates active and informed engagement and oversight by the board in identifying and managing risk.
- Transparency is one of the fundamental tenets of strong corporate governance. When climate risk is material, consideration should be given to disclosing the company's governance and risk management practices around climate risk.

Comply with the law

- Directors of listed companies should carefully consider the requirements relating to OFR disclosure under s299A(1)(c).

We consider that the law requires an OFR to include a discussion of climate risk when it could affect the entity's achievement of its financial performance or disclosed outcomes. Directors should also consider the requirement to include any relevant analytical comments and specify how risk factors that are within the control of management will be managed: see paragraph 64 in [RG 247](#).

- Preparers of disclosure documents should consider the relevant issuing company's exposure to climate risk as part of any due diligence process and, when that risk is material, the prospectus should disclose it in a clear, concise and effective way: see s710 and [RG 228](#).

Disclose useful information to investors

- The voluntary disclosure recommendations issued by the TCFD are specifically designed to help companies produce information that is useful for investors (among others). We do not consider there is any legal or policy impediment to listed companies reporting under the TCFD recommendations provided that the disclosure is not misleading or deceptive. We recommend that listed companies with material exposure to climate risk consider reporting under the TCFD framework.
- Regardless of whether TCFD reporting is adopted, we recommend that, where appropriate, listed companies assess and disclose climate risk with reference to the broad categories formulated by the TCFD: physical and transition risk. Further, listed companies should strive for consistency between the categorisation of climate risk adopted across voluntary and statutory disclosures.
- We also recommend that listed companies consider disclosing climate separately to other general risk categories, such as environmental or regulatory risk, and focus on ensuring risk disclosure is sufficiently clear and specific.

Appendix: Accessible versions of figures

This appendix is for people with visual or other impairments. It provides the underlying data for each of the figures included in this report.

Table 2: Percentage of annual reports of all listed companies containing 'climate change content' (2011–2017)

Year	Percentage of entities that mention the 'climate change content'
2011	22%
2012	19%
2013	17%
2014	16%
2015	15%
2016	14%
2017	14%

Note: This is the data contained in Figure 1.

Table 3: Percentage of annual reports containing 'climate change content' (2011–2017): ASX 300 companies versus non-ASX 300

Year	Percentage of ASX 300	Percentage of Non-ASX 300
2011	47%	18%
2012	44%	15%
2013	39%	13%
2014	39%	12%
2015	39%	11%
2016	38%	10%
2017	42%	10%

Note: This is the data contained in Figure 2.

Table 4: Percentage of 'climate change content' in annual reports of companies within the ASX 300 (2011–2017)

Year	Percentage of ASX 100	Percentage of ASX 101–200	Percentage of ASX 201–300
2011	60%	49%	31%
2012	55%	46%	31%
2013	53%	42%	21%
2014	53%	40%	25%
2015	58%	33%	27%
2016	54%	32%	27%
2017	65%	37%	24%

Note: This is the data contained in Figure 3.